Technology
**Marc Andreessen's Ovitz Envy**
p90

Etc.
**REAL MOGULS DON'T EAT MEAT**
p103

Minerals
**Morocco Is Going to Be Very Rich**
p80

Plus
**Ben Bernanke's Last Bullet** p12
The NFL's Labor Paradox p23
**Why IBM Keeps Buying Itself** p51
Africa: India's Land of Opportunity p61
**The Art Market's Celeb Markup** p112

November 8 — November 14, 2010 | businessweek.com

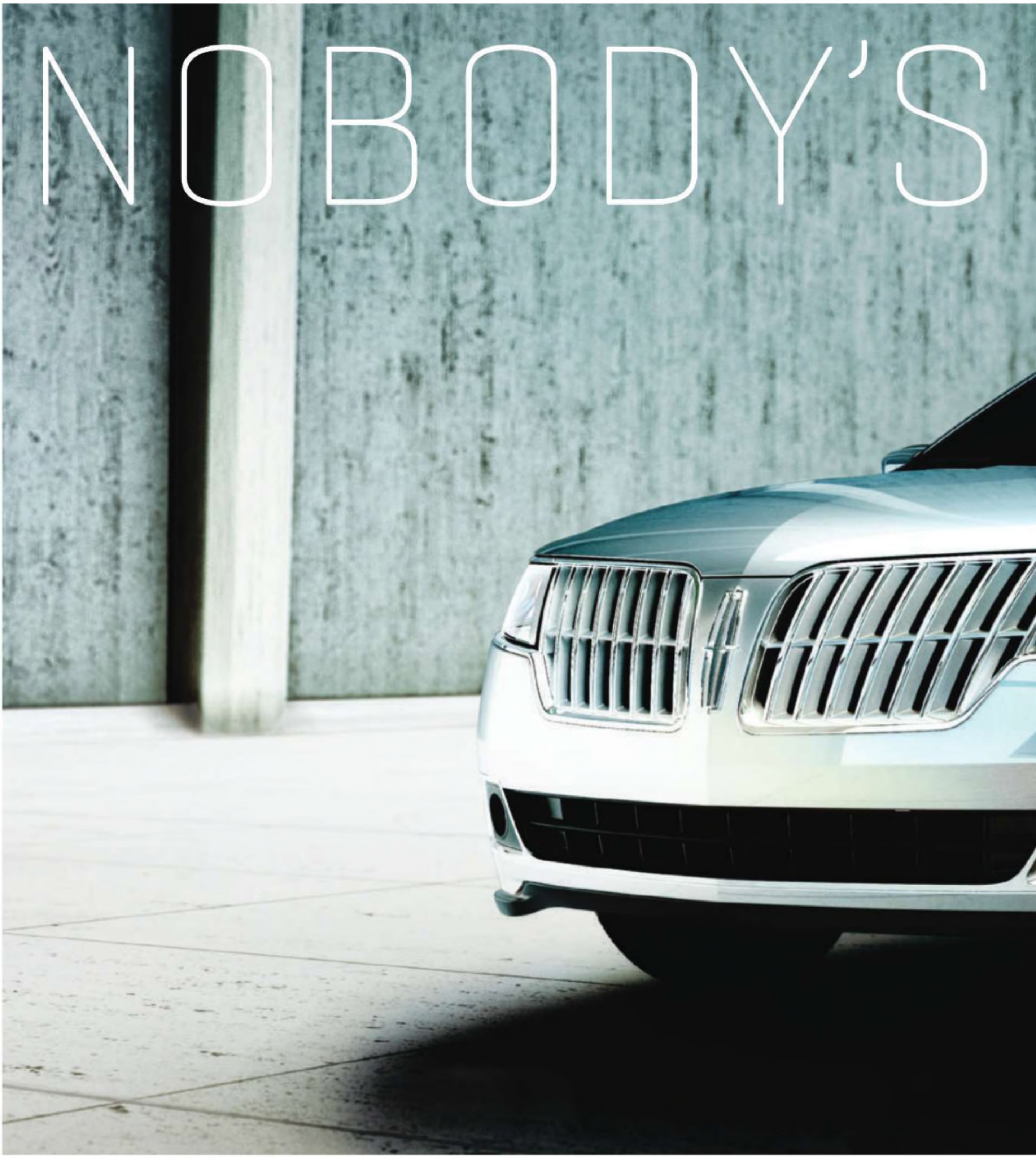
# Bloomberg Businessweek



**The U.S. Chamber of Commerce aced the midterms. Now: What does Tom Donohue want from Washington?**
p70

# Obama's Tormentor

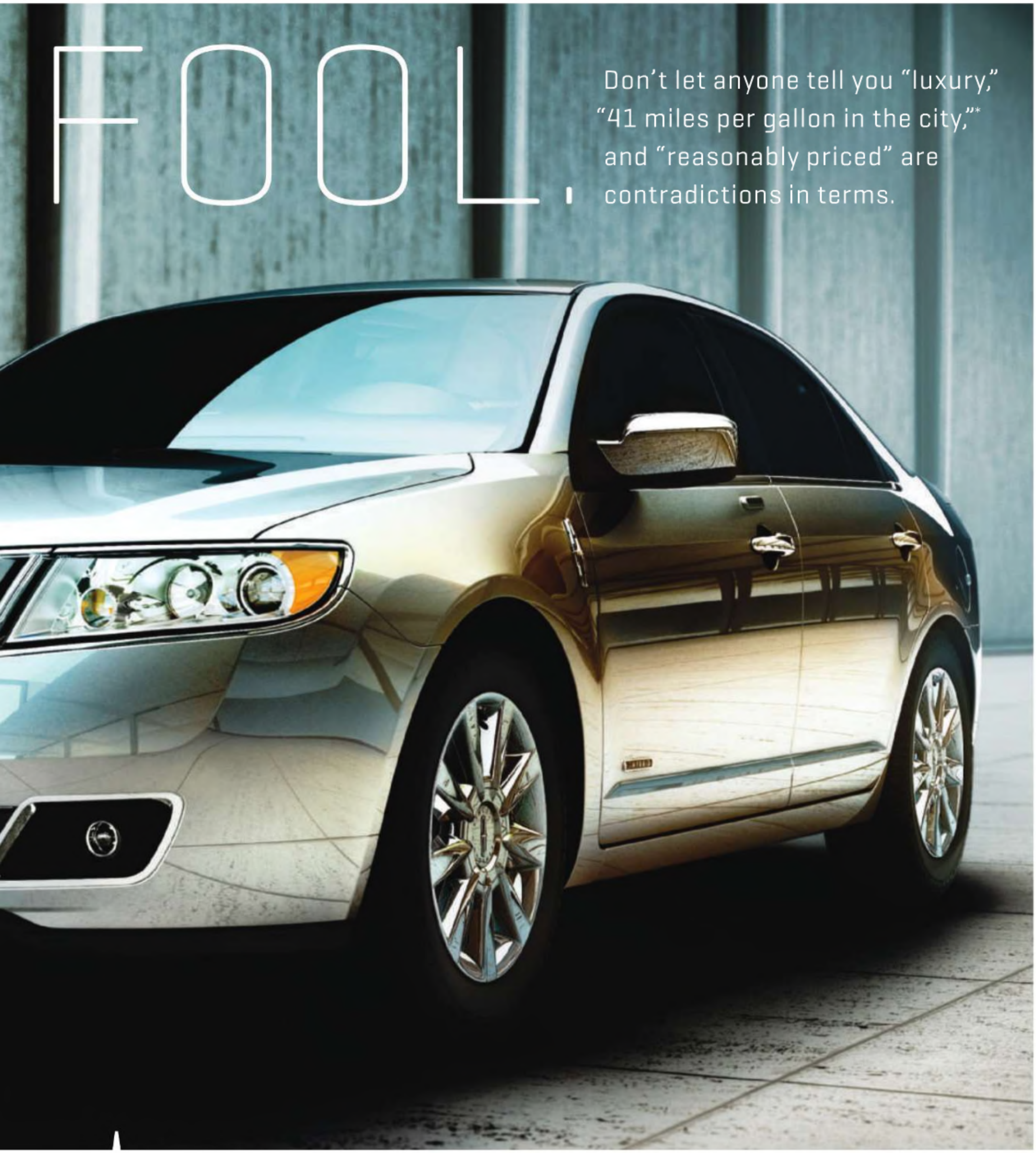
**Plus: The chaos of political extremism by Jon Meacham**
p8




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# Bloomberg Businessweek Contents



**Old school**
'80s prep brand Boast is back p106

## Opening Remarks 8

In the wake of another contentious election, Jon Meacham offers advice not to the President or Congress but to voters on how to move beyond the culture of extremes

## Global Economics 12

**The Fed is buying again**
Its new $600 billion foray into Treasury bonds has to lower long-term rates to succeed

Iceland's mortgage mess p14
An Ohio ban has India's outsourcers worried p16
A surprising attack on Britain's austerity plan p18
Tom Keene's EconoChat p18
Seven days ahead p20

## Companies & Industries 23

**The NFL's safety paradox**
The league's push to reduce injuries highlights divisions between players and owners

Fiat comes back to the U.S. p24
The surprising buyers for emerging-market telecoms p25
Why for-profit colleges want a few good veterans p26
What's on that cargo ship? p28
Briefs p30

## Politics & Policy 33

**And now to govern**
This Republican moment may prove fleeting with Tea Partiers looking to disrupt the Establishment

Big-spending former executives bomb at the ballot box p35
The Republicans' other victory: A big redistricting edge p36
The House's new leaders p38
A Charlie Rose roundtable p40

## Technology 43

**One screen is not enough**
Networks are trying to profit from dual-screen viewers who watch TV while interacting online

Mobile apps for the office p44
Putting the Web in order p45
A late wake-up call for some iPhone users in Europe p46
Plans for a revolution in DC—direct current, that is p48

## Markets & Finance 51

**IBM is bullish on IBM**
Despite trading at near a record high, Big Blue is spending billions to buy back its shares

An IPO boom in Asia p52
The curious case of Anglo Irish Bank ex-CEO David Drumm p53
A very good year for bonds p54
A new law may bring mortgages to the Saudi masses p56
Bid & Ask: The week's deals p58

## Emerging Markets 61

**A passage to Africa**
Indian companies are looking to the continent to avoid red tape and competition at home

Sri Lanka's peace dividend p62
Investors seek safer emerging-market stocks p63
Why Warsaw is the bourse to beat in Central Europe p64
A historic opportunity for growth in Brazil p66



**Valley Elite** Andreessen (center), with partners Horowitz and O'Farrell

## Features 70

**Obama's Tormentor**
If U.S. Chamber of Commerce chief Tom Donohue has his way, the President's agenda is toast p70

**Phosphate: Morocco's White Gold**
It's in everything from fertilizer to batteries. And King Mohammed VI owns half the world's reserves p80

**The New New Marc Andreessen**
The visionary founder of Netscape is trying to reinvent himself as a top-tier venture capitalist p90

**The Price of Admission**
How the cost of a Lakers ticket is shared among scalpers, owners, and everyone in between p100

## Etc. 103

**The Rise of the Power Vegan**
From Bill Clinton to Steve Wynn, a growing number of top guns are pushing aside the steak for seitan

**Fashion** Polo-shirt favorite Boast gets a new life thanks to two Ivy League fans p106
**Wealth** Royce's Whitney George searches for unloved, but solid, stocks p108
**How To...** get your boss to grant you a sick day by faking the perfect illness p110
**Art** When celebrity-owned art hits the block, the bids head higher p112
**The Stack** Bill Carter, author of *The Late Shift*, is back in the 11:35 p.m. time slot with the story of Jeff Zucker, Jay Leno, and Conan O'Brien and *The War for Late Night* p114
**Hard Choices** Chinese television star and entrepreneur Yue-Sai Kan on building a business, creating a new market, and knowing when to sell p116

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# Index





A B C

ABC (DIS) 43, 114
Accel Partners 90
Accor 30
Agilent Technologies (A) 20
Agricultural Bank of China 52
Aitken Spence Hotel Holdings 62
**Alito, Samuel** 46
AllianceBernstein (AB) 52
AlphaOne Capital Partners 51
**Altman, Roger** 40
Amazon.com (AMZN) 90
AmBev (ABV) 63
América Móvil 25
American Intl. Group (AIG) 38
American Power Conversion 48
American Public Education (APEI) 26
**Anderson, Mike** 103
Andreessen Horowitz 90
**Andreessen, Marc** 90
Anglo Irish Bank 53
AOL (AOL) 90
Apollo Group (APOL) 26
**Apotheker, Léo** 90
Apple (AAPL) 24, 28, 30, 44, 46, 70, 90
Aramea Asset Mgmt. 25
Ares Life Sciences 58
Armstrong Ceilings 48
Astarta Holding 64
Autodata 24
Banco Bilbao Vizcaya Argentaria (BBVA) 58
Bank of America Merrill Lynch (BAC) 54
Bank Pekao 64
**Barbour, Haley** 36
BDSP 84
Benchmark Capital 90
**Bernanke, Ben** 12
Bharti Airtel 61
BHP Billiton (BHP) 84
BMW 24
Boast 106
**Boehner, John** 33, 38
Boeing (BA) 70
Booyah 45
BP (BP) 28, 108
**Brady, Robert A.** 103
Bravo 43
Breyers 43
**Brown, Scott** 33
**Bryant, Kobe** 100
**Bush, George** 20
**Cameron, David** 18
**Camp, Dave** 38
Carlyle Group 58
Caterpillar (CAT) 70
CBS (CBS) 43, 115
Chegg 90
**Cheney, Dick** 103
Chérifien des Phosphates 84
Chevron Texaco (CVX) 70
China Eximbank 62
Christie's 112
Chrysler Group 20, 24
Cisco Systems (CSCO) 20
Citigroup (C) 56, 63
**Clegg, Nick** 18
**Clinton, Bill** 9, 33, 103
**Clinton, Hillary** 84
Coal India 52
Coca-Cola (KO) 84
Code Advisors 90
**Condit, Philip M.** 70
**Conway, Ron** 90
Costco (COST) 28
Creative Artists Agency 90
Credit Suisse (CS) 56, 63
Cumberland Advisors 12
**Cummo, Luke** 103
CW 43
Cyrrus 64

D E F

Daimler 24
**DeGeneres, Ellen** 103
Deloitte Touche Tohmatsu 16
Deltec Asset Management 52
**DeMint, Jim** 33
Deutsche Bank (DB) 56
Deutsche Telekom 25
Digonex Technologies 100
**Dimon, Jamie** 70
**Doerr, John** 90
**Donohue, Thomas J.** 70
Dow Chemical (DOW) 70
**Dreier, Marc S.** 112
**Drumm, David K.** 53
**Dudley, Robert** 28
Dunlop Tyres 61
**Durbin, Dick** 16
East Capital 64
eBay (EBAY) 35, 90
**Elbaz, Gil** 45
Emirates Telecomm. 25
Enel 58
E.ON 20
Essar Group 61
Evercore Partners (EVR) 40
Exco Resources (XCO) 58
ExxonMobil (XOM) 51
Facebook 43, 45, 90
Factual 45
Fairchild Semiconductor (FCS) 108
Fannie Mae (FNM) 38
**Favre, Brett** 23
**Ferguson, Craig** 114
Ferrovial 58
Fiat 24
**Fiorina, Carly** 35
Ford (F) 24, 48, 103
**Ford, William Clay Jr.** 103
Forrester Research (FORR) 16
Fortuna Entertainment 64
Foursquare 90
Fox (NWSA) 114, 115
France Telecom (FTE) 25
Franklin Templeton Investments 62
Freddie Mac (FRE) 38

G H I

Gateway 35
General Mills (GIS) 30
General Motors 24, 30, 51
Get Glue 43
**Gibson, Mel** 112
**Gillespie, Ed** 36
**Gingrich, Newt** 9, 33
Global Thematic Growth Fund (ALTFX) 52
Goldman Sachs (GS) 12, 16, 66, 70
**Gonzalez, Tony** 103
Google (GOOG) 44, 45, 90
Grant Thornton 61
**Grassley, Charles** 16
Green Mountain Coffee Roasters (GMCR) 20
Greylock Partners 90
Groupe Chimie Tunisien 84
Guggenheim Partners 54
Gulfstream (BD) 103
**Hall, Jerry** 112
**Hatzius, Jan** 12
**Hennequin, Denis** 30
Hewlett-Packard (HPQ) 35, 90
Hexaware Technologies 16
**Hirst, Damien** 112
Hochschild Mining (HOC) 108
Hoisington Investment Mgmt. 54
Holcim 62
Home Depot (HD) 28
**Horowitz, Ben** 90
**Horta-Osório, António** 30
Horwath 84
HSBC (HBC) 62
Hulu 43
**Hurley, Chad** 30
**Hutchins, Glenn** 40
Hyundai Engineering and Construction 62
IBM (IBM) 44, 51
**Icahn, Carl** 30
IHS Automotive (IHS) 24
Infosys Technologies (INFY) 16
Intel (INTC) 51
Intuit (INTU) 90
Inversiones Aguas Metropolitanas 63

J K L

**Jackson, Phil** 100
Jack Spade 106
**Jagger, Mick** 112
Janney Montgomery Scott 51
J.C. Penney (JCP) 20
Jiangsu Rongsheng Heavy Industry Group 52
JinkoSolar Holding (JKS) 52
**Jobs, Steve** 30, 90
**Johns, Jasper** 112
**Johnson, Boris** 18
Johnson Controls (JCI) 48
Johnson & Johnson (JNJ) 70
**Josten, R. Bruce** 70
JPMorgan Chase (JPM) 70
Kangwon Land 63
**Kan, Yue-Sai** 116
Karuturi Global 61
**Kasich, John** 34
Kate Spade 106
Kellogg (K) 30
Khosla Ventures 90
**Khosla, Vinod** 90
**King Mohammed VI** 84
**Kissinger, Henry** 112
Kleiner Perkins 90
Kno 90
**Kucinich, Dennis** 103
Kulczyk Oil Ventures 64
Ladbrokes 18
**Laraque, Georges** 103
**Law, Steven J.** 70
Lazard (LAZ) 25
**Leme, Paulo** 66
**Leno, Jay** 114
**Letterman, David** 114
**Levkovich, Tobias** 56
**Lewis, Jerry** 38
Liberum Capital 25
Lions Gate Entertainment (LGF) 30
Lloyd's Banking Group (LYG) 30
Lockheed Martin (LMT) 38
L'Oréal 116
Los Angeles Clippers 100
Los Angeles Kings 100
Los Angeles Lakers 100
**Lucas, Ray** 23

M N O

Macy's (M) 20
**Madonna** 103
Mahindra Satyam (SAY) 16
MakeMyTrip 52
**Manchin, Joe** 9
**Martin, Steve** 112
MasterCard (MA) 30
**McConnell, Mitch** 33
McDonald's (MCD) 30, 103
**Mckeon, Howard** 38
McKesson (MCK) 58
McKinsey & Co. 61, 103
Merck (MRK) 70
Metro-Goldwyn-Mayer 30
Miami Heat 100
Microsoft (MSFT) 51, 90
Millicom Intl. Cellular (MICC) 25
Minnesota Vikings 23
Miso 43
**Mobius, Mark** 62
Moby 103
Moody's Investors Service (MCO) 33
**Moore, Demi** 112
Morgan Stanley (MS) 63
**Moritz, Mike** 90
Mosaic (MOS) 84
M&T Bank (MTB) 58
MTV Networks 43
**Murdoch, Rupert** 103
**Musk, Elon** 45
**Napolitano, Janet** 28
NBC Universal 70, 114
**Negreanu, Daniel** 103
Neptune Orient Lines 28
Netflix (NFLX) 43
New Constructs 51
New England Patriots 23
**Newkirk, Ingrid E.** 103
News Corp. (NWSA) 70, 103
New York Jets 23
Nextek Power Systems 48
Nike (NKE) 70
Nitron International 84
Northrop Grumman (NOC) 38
Nutra-Flo 84
NYSE Euronext (NYX) 64
**Obama, Barack** 9, 38
**O'Brien, Conan** 114
**O'Donnell, Christine** 35
ONA Group 84
Ondeego 44
Oracle (ORCL) 51
Orascom Telecom Holding 25
**Ovitz, Michael** 90
Oxford Analytica 25

P Q

PAI Partners 58
**Palin, Sarah** 20
**Paul, Rand** 33
PayPal (EBAY) 45
**Pélisson, Gilles** 30
Petronas Chemicals Group 52
Phillips de Pury & Co. 112
Philo 43
Photon Energy 64
Photoshop (ADBE) 70
**Pickens, T. Boone** 58
Pimco 54
Polo Ralph Lauren (RL) 20
PotashCorp (POT) 84
Prayon 84
Priceline.com (PCLN) 20
Procter & Gamble (PG) 61, 84
Qcue 100
QR National 52
**Quattrone, Frank** 90

R S

**Rajan, Raghuram** 18
**Rajapaksa, Mahinda** 62
Raytheon (RTN) 38
**Redden, David** 112
**Reid, Harry** 9, 36
**Reinhart, Vincent** 33
**Rogers, Hal** 38
**Rousseff, Dilma** 66
**Rove, Karl** 70
Royce Low-Priced Stock Fund (RYLPX) 108
**Rubio, Marco** 33
**Ryan, Paul** 38
**Salley, John** 103
**Sandberg, Sheryl** 90
Santander (STD) 30
Sara Lee (SLE) 20
**Savage, Paul** 48
**Scalia, Antonin** 46
**Schmidt, Eric** 90
**Schnabel, Julian** 112
SeatGeek 100
**Semel, Terry** 103
Shangri-La 62
Siemens (SI) 20
**Sigurdardottir, Johanna** 14
Silver Lake Partners 40, 90
**Simmons, Russell** 103
SKS Microfinance 52
Skype 90
Snyder's of Hanover 43
Sonic 43
Sony (SNE) 114, 115
**Soros, George** 52
Sotheby's (BID) 58, 112
Sprott (SPOXF) 108
Spyglass Entertainment 30
Stallergenes 58
Standard & Poor's (MHP) 51
Stanford Hospital 90
**Stone, Biz** 103
**Streisand, Barbra** 112
Syco 115
Syniverse Technologies 58

T U

Target (TGT) 28
Tata Consultancy Svcs. 16
Telekom Austria (TKA) 25
Telekom Srbija 25
Telenor 25
Telefónica 25
**Terrab, Mostafa** 84
Tesla Motors 45
Thomson Reuters (TRI) 110
Toyota (TM) 24
TPI 16
Trican Well Svce. (TOLWF) 108
Turkiye Garanti Bankasi 58
Twitter 43, 46, 103
**Tyson, Mike** 103
UBS (UBS) 25
UniCredit 64
Unilever (UL) 61
Upromise 103
**Upton, Fred** 38
US Oncology 58

V W

Viacom (VIA.B) 20, 70, 103
Videocon Industries 61
VimpelCom (VIP) 25
Visa (V) 30
Vodafone (VOD) 20, 25
Volkswagen 24
Wal-Mart (WMT) 28, 90
Walt Disney (DIS) 20, 70, 90
Washington Post Co. (WPO) 26
Weather Investments 25
Wendy's Arby's Group (WEN) 20
**Whitman, Meg** 35
**Whitney, Meredith** 40
Whole Foods (WFMI) 103
William Blair 52
William Morris Agency 90
Wilmington Trust (WL) 58
**Winfrey, Oprah** 103
Worldwide Pants 115
World Wrestling Entertainment (WWE) 35
**McMahon, Linda** 35
**Wynn, Steve** 103, 112

Y Z

Yahoo! (YHOO) 45, 90
YouTube (GOOG) 30
Zain 61
**Zuckerberg, Mark** 90
**Zucker, Jeff** 114
**Zuckerman, Mortimer B.** 103


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Jefferson and Hamilton understood that parties were necessary to advance one's vision of life. And as they discovered almost immediately after George Washington took the first Presidential oath in April 1789, they were leading a nation in which opinion would always be divided and partisan clashes were inevitable. The key thing, as Jefferson put in it his 1801 inaugural address, was to remember that not every difference of opinion is a difference of principle.

Few took his point–then or now. More than two centuries on, Americans are likely to see division as insuperable. Is the partisan feeling substantively different in 2010 from what it was in 1801? No, and therein lies an underappreciated problem. The 18th and 19th centuries were dominated by an explicitly partisan press. Newspapers were funded by politicians–Andrew Jackson grew so unhappy with his party's during his Presidency that he founded his own, and edited copy–and the tone could be violent and vitriolic.

That changed for the better beginning in 1896, when Adolph Ochs, a Tennessee publisher, bought *The New York Times* and started attempting to cover the news "without fear or favor." Now the media world that Ochs created is breaking apart all around us. So the question is not whether our political culture is better or worse than it was in the early years of the Republic, but whether it is better or worse than it was in 1980 or 1990. And the answer is yes, it is worse.

That is because so much political information is coming from a thriving class of provocateurs, on the Internet and some cable news outlets, who have an economic stake in the perpetuation of conflict rather than in the solution of problems. That's why it's crucial for voters to consider the source of what they read and hear. If there is a set ideological orientation, be aware of it, and judge what you absorb accordingly. As Moynihan liked to say, everyone is entitled to his own opinions–but not to his own facts.

**Calm down.** It is a difficult time for many. Unemployment is too high, investment too low, pro-growth policies too scarce. According to Gallup, only 21 percent of Americans are satisfied with the way things are going in the country

Still, the world is not ending. In November 1964, as voters chose between Barry Goldwater and Lyndon Johnson, the political scientist Richard Hofstadter wrote a piece for *Harper's Magazine* on what he called the "paranoid style in American politics," a tendency on the part of some people–on both left and right–to overdramatize the temper of the time. The paranoid, he wrote, "is always manning the barricades of civilization. He constantly lives at a turning point. ... As a member of the avant-garde who is capable of perceiving the conspiracy before it is fully obvious to an as yet unaroused public, the paranoid is a militant leader. He does not see social conflict as something to be mediated and compromised, in the manner of the working politician. Since what is at stake is always a conflict between absolute good and absolute evil, what is necessary is not compromise but the will to fight things out to a finish."

Conviction matters, deeply, and devoted partisans are often people of goodwill. We would not want (and could not have) a country or a politics without True Believers, for they delineate the terms of debate. The truth does not always lie between extremes, and compromise is not always the correct course. But sometimes it does, and sometimes it is. The best way to decide whether this or that hour is one of those times is to stop and think.

**Don't settle for the status quo.** With only a few exceptions, two competing parties have dominated American politics for a century and a half. Today we have Republicans and Democrats who fight one another with Shermanesque tactics, hurling themselves into total political war over–well, over what, exactly? The partisan clamor with which we live is not commensurate with the actual distinctions between the two parties. We have a Democratic President who has increased the projection of U.S. force in Afghanistan, rescued the financial sector, and cut taxes for 95 percent of working families. (And who, by the way, has little time for issues such as marriage equality or gun control). We have a Republican Party whose last President created vast deficits, grew government, and who, in crisis, all but nationalized the banks.

Although both sides of course vigorously dispute all this, the fact remains that shifts in party control do not have to create seismic structural changes. Health-care reform, a seeming exception, does not even quite count. Remember that the bill Obama signed did not mandate universal coverage–a central progressive cause for more than a century. Could it be that the parties, either consciously or unconsciously, understand that they are largely part of the same established ethos, and that the fury of the contests between them reflect what Freud once called the "narcissism of small differences"?

Voters should think more creatively and demand more options. Americans love free markets except in our politics, where we are strangely satisfied with having only two brands. There is clearly room for an independent force. A scrambling of the existing parties and a reordering of outdated ideologies are overdue.

The Tea Party is not exactly the embodiment of a moderate third-way movement–it fits more in the Hofstadter paranoid tradition than it does with the emergence, say, of the Republican Party 150 years ago. But its success in propelling relative outsiders into positions of power underscores the system's fundamental instability. The Tea Party activists are onto something, and others of perhaps more moderate views and temperament could learn from their example.

Hopes about third ways may be ephemeral and doomed. Here, however, is one great perennial truth: Politicians, dependent on their clients for their daily bread, will fill any demand that makes itself obvious, urgent, and consuming.

The exact content of that demand is still to be determined, but one thing is clear: There is a market opening for an enlightened pragmatism. The shade of Daniel Patrick Moynihan is worth one more consultation. "In some forty years of government work I have learned one thing for certain. ... The central conservative truth is that it is culture, not politics, that determines the success of a society," Moynihan said in a note preserved in Steven R. Weisman's new book, *Daniel Patrick Moynihan: A Portrait in Letters of an American Visionary*. "The central liberal truth is that politics can change a culture and save it from itself. Thanks to this interaction, we're a better society in nearly all respects than we were."

Interaction–not collision. Tuesday was a win for brute force. But now come Wednesday, and Thursday, and the day after that, and the day after that. The jobless will still be jobless, the poor will still be impoverished, and our competitiveness will still be in peril. It is up to the winners–and the losers, come to that–to begin the work of restoring Moynihan's creative and comprehensive culture. B

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**Contents** ▶ The other major mortgage disaster: Iceland 14 ▶ Why Indian outsourcers are feeling unloved in America 16 ▶ Austerity in Britain triggers a surprising backlash 18 ▶ Tom Keene talks to Raghuram Rajan 18 ▶ The week ahead 20 ● Edited by Christopher Power

# Global Economics

## The Bernanke Code

**▶ Just don't call it quantitative easing. It's credit easing!**

**▶ The goal: Buy long-term assets to lower long-term rates**

To understand the Federal Reserve's latest attempt to jump-start the U.S. economy, consider what the central bank did not say. In its Nov. 3 announcement, the Fed never used the phrase "quantitative easing" to describe its program of buying another $600 billion worth of long-term Treasury bonds between now and the middle of 2011.

The Fed weighs its words carefully, so it's no accident that Fed Chairman Ben Bernanke and fellow members of the Federal Open Market Committee have resisted the label put on the plan by economists and journalists. Bernanke in past speeches described the Fed's strategy as "credit easing," although the FOMC stuck to the bland "asset-purchase program" on Nov. 3. Whatever it's called, Bernanke thinks it has a better chance of boosting the economy than what he calls quantitative easing.

The Fed has a lot riding on the success of its bond-buying strategy, which comes on top of the nearly $1.5 trillion in assets it has added to its balance sheet since 2008. The interest rate it directly controls is already as low as it can go. More government spending might juice growth, but that's even less likely now that Republicans have won control of the House on an anti-deficit-spending platform.

What gives the Fed's plan at least a chance of success is the bank's almost magical ability to create money out of thin air. When the Fed buys a Treasury bond, it pays by simply marking up the balance in the seller's account at the Fed. It's the electronic equivalent of printing money.

Bernanke will use this unique money-creation power to scoop up lots of Treasury bonds. By increasing the demand for them, he hopes to increase their price and push down their yields. Then, if all goes according to plan, falling yields on Treasuries will induce investors to move some of their money to other fixed-income securities with higher yields, ranging from corporate bonds to securities backed by mortgages, auto loans, and student loans. Stepped-up demand for those securities would drive down their yields, too, the Fed hopes, lowering interest rates throughout the economy and stimulating growth.

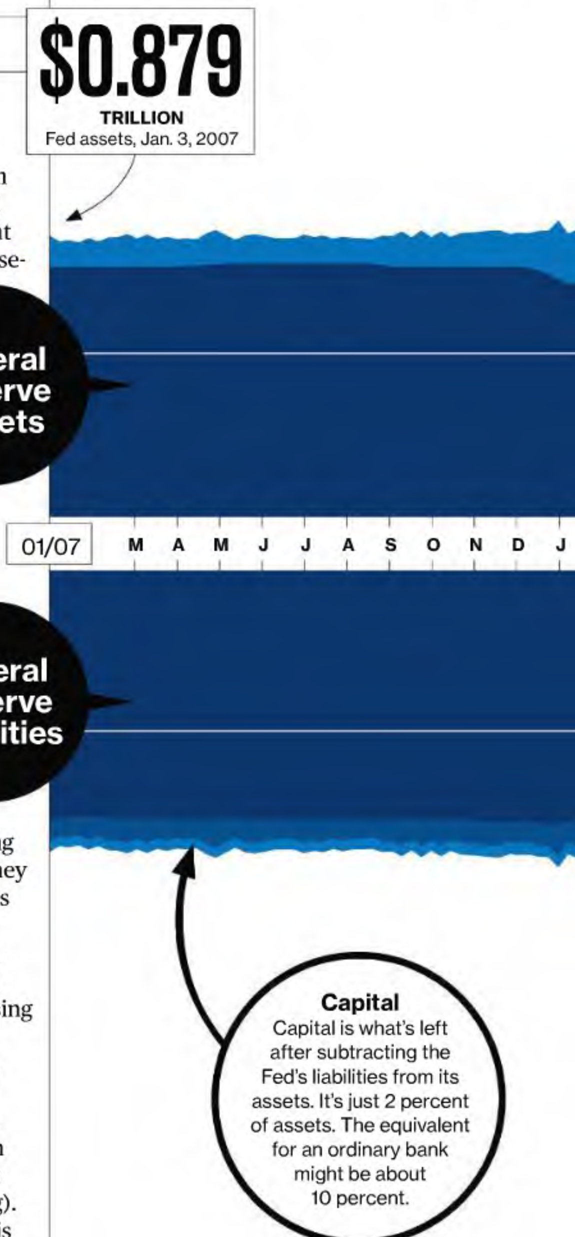
All of this credit easing occurs on the asset side of the Fed's balance sheet, the top half of the chart (right). In contrast, Bernanke says that quantitative easing, properly understood, refers to the liability side of the balance sheet, the bottom half of the chart. Bernanke has defined quantitative easing as increasing the reserves that banks hold at the Fed so they'll have ample capacity to lend. Since banks are already sitting on $1 trillion more in reserves than they require, Bernanke doesn't think that's the right way to fight the slump.

Hang on for one more twist in the argument. Economists who describe the Fed's initiative as quantitative easing say Bernanke is making a distinction without a difference. They point out, correctly, that the Fed can't operate on just one side of the balance sheet. The only way it can buy assets (which is credit easing) is by increasing bank reserves (which is quantitative easing). But Bernanke says that credit easing is distinguished by what the Fed buys, not how much it buys. If all the Fed wanted was to give banks more reserves (i.e., quantitative easing), it could buy any asset, including short-term

➔

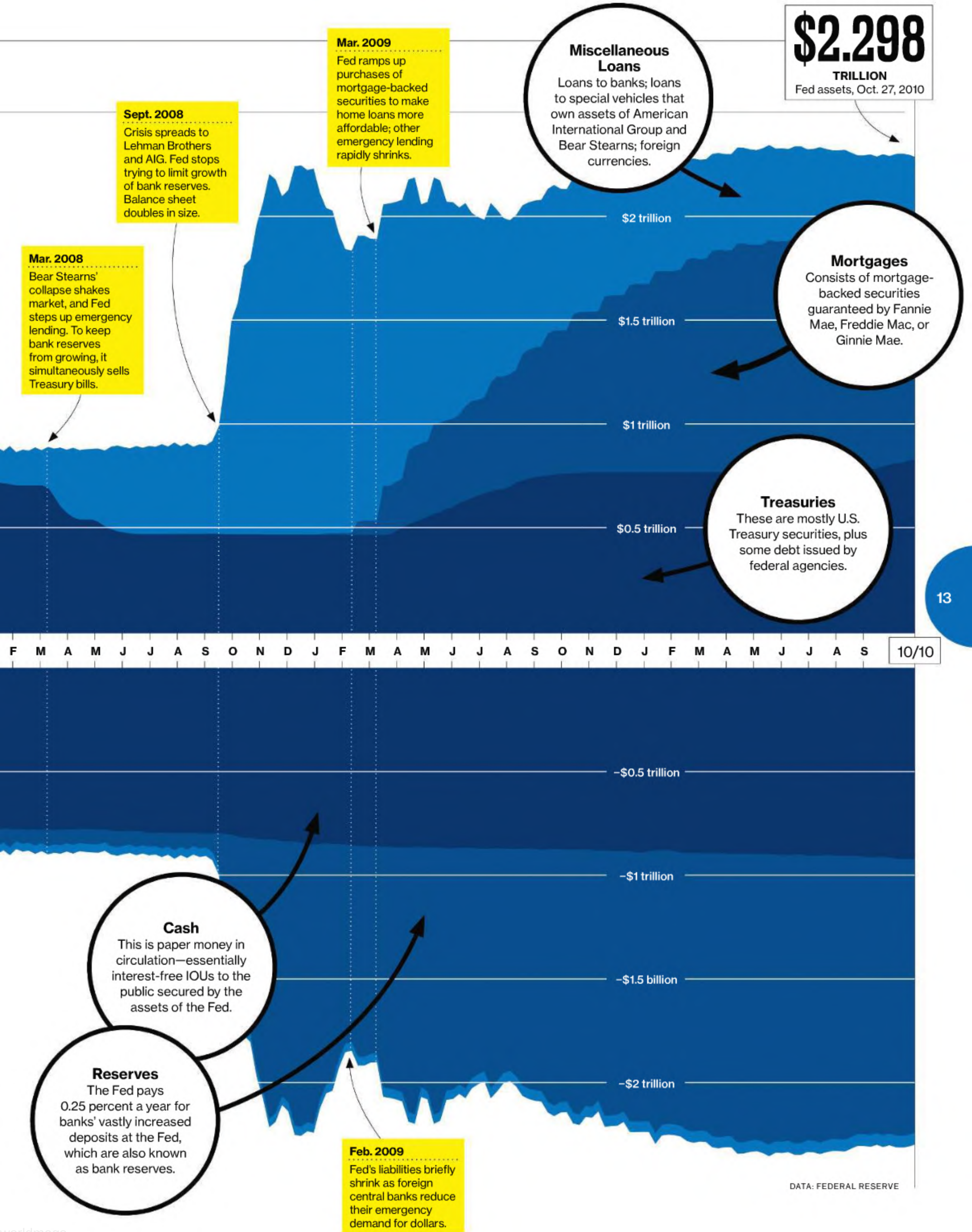
### The Fed's Crisis Balance Sheet

To fight the financial crisis, the Fed vastly increased its lending and asset purchases, paying for them by effectively creating new money. On Nov. 3, the Fed announced it would buy an additional $600 billion in Treasuries to drive down long-term rates.






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$2.298
TRILLION
Fed assets, Oct. 27, 2010
Mar. 2009
Fed ramps up purchases of mortgage-backed securities to make home loans more affordable; other emergency lending rapidly shrinks.
Sept. 2008
Crisis spreads to Lehman Brothers and AIG. Fed stops trying to limit growth of bank reserves. Balance sheet doubles in size.
Mar. 2008
Bear Stearns' collapse shakes market, and Fed steps up emergency lending. To keep bank reserves from growing, it simultaneously sells Treasury bills.
Miscellaneous Loans
Loans to banks; loans to special vehicles that own assets of American International Group and Bear Stearns; foreign currencies.
Mortgages
Consists of mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.
Treasuries
These are mostly U.S. Treasury securities, plus some debt issued by federal agencies.
$2 trillion
$1.5 trillion
$1 trillion
$0.5 trillion
F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S
10/10
−$0.5 trillion
−$1 trillion
−$1.5 billion
−$2 trillion
Cash
This is paper money in circulation—essentially interest-free IOUs to the public secured by the assets of the Fed.
Reserves
The Fed pays 0.25 percent a year for banks' vastly increased deposits at the Fed, which are also known as bank reserves.
Feb. 2009
Fed's liabilities briefly shrink as foreign central banks reduce their emergency demand for dollars.
DATA: FEDERAL RESERVE




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## Global Economics

Treasury bills, whose yields are already below 0.2 percent. It's not doing that. It's buying mostly securities maturing in two to 10 years, the ones most private debt is benchmarked against.

So what the Fed is doing isn't quantitative easing at all by the bank's own definition. Jan Hatzius, chief U.S. economist at Goldman Sachs, says Goldman economists avoided calling it QE until about six months ago, when "we got tired of fighting an unwinnable fight."

Economists are divided over whether the asset-buying plan will work. Goldman argues that buying long-term assets can stimulate the economy if pursued on a massive scale. It estimated before the announcement that $1 trillion in asset purchases might boost the size of the economy by about 1.2 percent over two years. Morgan Stanley economists Joachim Fels and Manoj Pradhan wrote before the announcement that bond-buying should boost growth by lifting asset prices, lowering the dollar, and raising expected inflation–thus reducing the inflation-adjusted level of interest rates.

Perry Mehrling, a Barnard College economist who has written a forthcoming book on Fed policy called *The New Lombard Street*, is more skeptical. He says the Fed's first asset-buying program made sense because it was focused on mortgage-backed securities, for which there was scant private demand after the housing collapse. In contrast, he says, there's no lack of private demand for Treasuries, so purchases are "unlikely to have much positive effect."

A second criticism of the Fed's plan is that if the central bank succeeds in reviving the economy, market yields will rise and the value of its assets will plunge. If the Fed then chose to sell those bonds, it would incur a loss and be technically insolvent without an infusion of capital from the Treasury Dept., says Robert A. Eisenbeis, chief monetary economist at Cumberland Advisors, a Sarasota (Fla.)-based investment advisory firm. If the Fed intends to hold the bonds to maturity, though, it won't need to recognize a loss on them. Besides, Bernanke has argued, the Fed is in business to support the economy, not make profits. —*Peter Coy*

***The bottom line*** *The Fed's new foray into bond purchases has to lower long-term rates to succeed. The $600 billion is less than it has already spent.*





**Prime Minister Sigurdardottir's rescue plan for homeowners faces resistance**

BOB STRONG/REUTERS

### The Financial Crisis

## The World's Other Mortgage Disaster

- ▶ **Almost 40 percent of Iceland's homeowners are under water**
- ▶ **Sigurdardottir says she "has the task of resurrecting Iceland"**

Iceland's Prime Minister, Johanna Sigurdardottir, is pushing for one of the world's most ambitious debt relief programs as she takes on the International Monetary Fund and bank creditors.

Before 2008, Iceland's privatized banks borrowed liberally from foreign lenders to expand. So did ordinary homeowners, who took out mortgages denominated in Swiss francs and euros at much lower rates than were available in kronur, the local currency.

It all worked as long as the krona was strong. Then credit dried up worldwide, the krona crashed, and the cost of servicing all that foreign-denominated debt jumped. The IMF extended an emergency loan in exchange for pledges of austerity, and a left-wing government under Sigurdardottir took over in early 2009.

As Sigurdardottir, 68, put it in an e-mail to Bloomberg News, she is the first Prime Minister in Iceland's history who "has taken over the task of literally resurrecting Iceland from the

### Trade

## Grounded in Yemen

A foiled terrorist plot originating in Yemen has triggered a wave of restrictions on its air cargo. Yemen sends a tiny percentage of its exports to America, though, and what travels to the U.S.–oil, mostly–comes by ship. Below, the country's export profile. —*Cristina Lindblad*

**Yemen's leading export markets (2009)**




**Yemen's exports to the U.S. (Jan.-Aug. 2010)**

| $146m | $3m | $1.1m |
|---|---|---|
| Crude oil and natural gas | Fruit | Second-hand merchandise |

DATA: CIA WORLD FACTBOOK; U.S. COMMERCE DEPT.

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## Global Economics

ruins of collapse. It's demanded a new modus operandi."

Sigurdardottir, known as Johanna, now faces a crisis of her own. In early October a demonstration of beleaguered homeowners demanded relief from their mortgages. To protect the 39 percent of households whose homes are worth less than their mortgages, Sigurdardottir initially promised to examine the homeowners' proposal that lenders forgive $2 billion in mortgage debt, equal to 15 percent of Iceland's economic output.

That pledge triggered a storm of protest from the banks and pension funds. "We don't support general write-offs on loans," says Hrafn Magnusson, managing director of the Icelandic Pension Funds Assn. The funds rely on bonds backed by local mortgages to support pension payments. The unions that depend on the pensions are rallying to the funds as well. Unless the pension groups agree to a deal, Sigurdardottir will struggle to pull off her rescue mission. "It will become unbearable for the government to hold on to power if it fails," says Birgir Gudmundsson, a political science professor at the University of Akureyri in Iceland's north.

The Prime Minister has backed away from her original position and focused on three other ideas: Extending a moratorium on foreclosures, even though the government agreed earlier with the IMF to end "temporary post-crisis measures"; allowing bankrupts to walk away from their debt after two years, a big concession in Europe where personal bankruptcy laws are often tougher than in the U.S.; and banning the banks' practice of indexing foreign-denominated loans to the exchange rate. The last proposal, if enacted, would cut each household's foreign-denominated debt by $13,500, on average.

Sigurdardottir, a former flight attendant, has focused mostly on social issues in 32 years in politics. "To enter the fray at a time of complete distrust in politics, she steps forward and is, in the minds of many, 'Holy Johanna,'" says Gudmundsson. "She's had the image of always looking out for the people." Now she has to combine compassion with the hard politics of austerity. —*Omar R. Valdimarsson*

***The bottom line*** *Iceland's crisis is prompting the government to seek debt relief for homeowners. Banks and pension funds are pushing back.*



### Real Estate

## Breaking Another Record in Hong Kong

The Hong Kong Monetary Authority reported Oct. 26 that luxury property prices passed the record levels achieved in the third quarter of 1997, just after Hong Kong's handover to Chinese jurisdiction. Because the Hong Kong dollar is pegged to the greenback, rich Chinese can take advantage of the city's low interest rates to buy one luxury apartment after another. While mass-market property prices have not yet broken through the 1997 level, they are rising fast.




DATA: HONG KONG MONETARY AUTHORITY, CENTALINE



The Valais, *New Territories*

The Leighton Hill, *Hong Kong Island*

The Sorrento, *Kowloon*

### IT Services

## India Outsourcers Feel Unloved in the U.S.



▸ **Ohio's IT offshoring ban endangers a critical market for Indian firms**

▸ **"We see phenomenal growth .... They need help from people like us"**

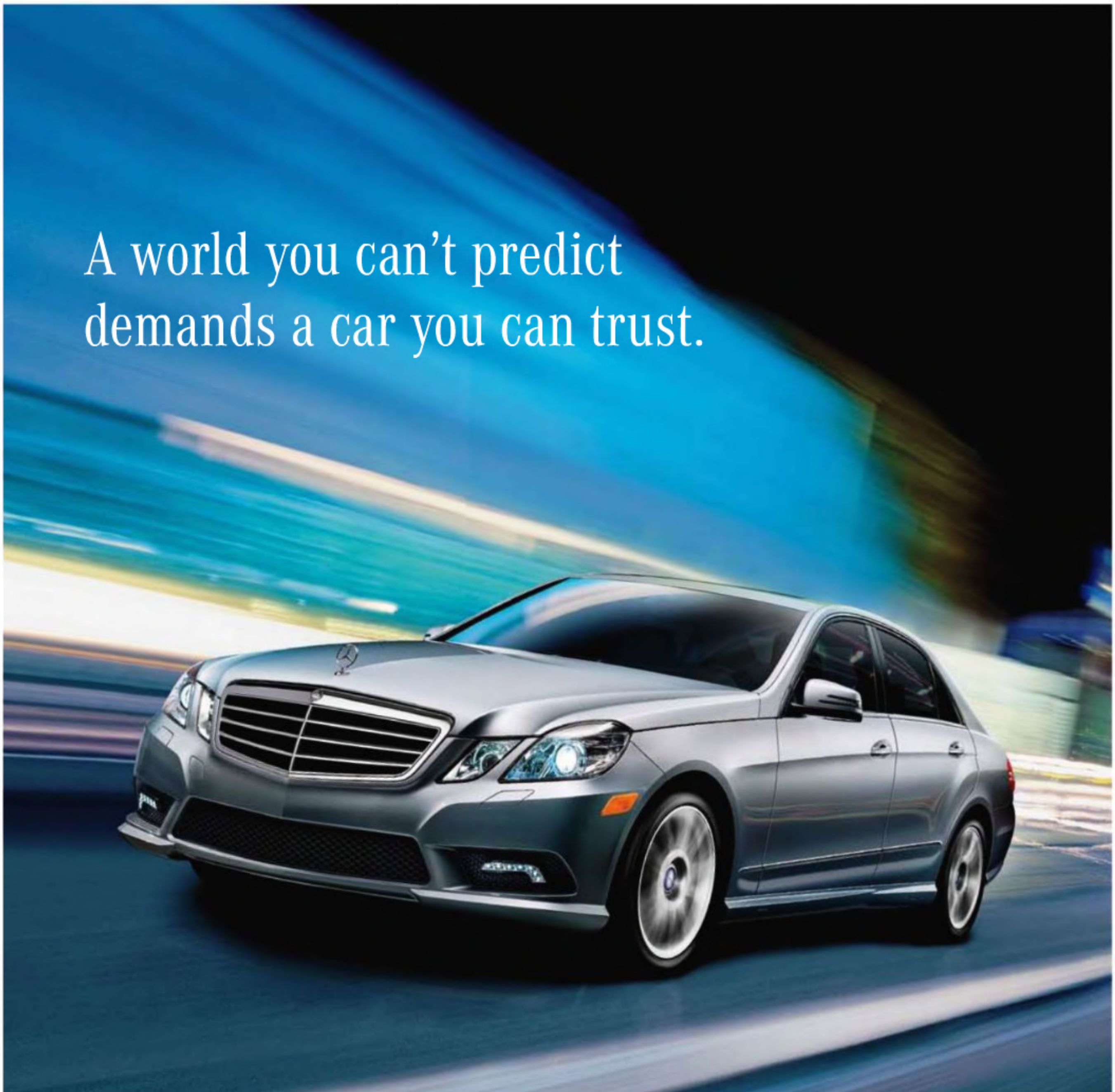
When President Obama meets with Indian political and business leaders during his four-day swing through Mumbai and New Delhi starting Nov. 6, he's sure to encounter some harsh words about the current U.S. backlash against Indian outsourcing firms. In August, Congress passed a law raising fees for work visas by $2,000 to about $4,300. The visas, used by foreign IT workers spending time in the U.S., could cost Indian companies up to $250 million a year, says Som Mittal, president of Nasscom, the Indian software industry's lobbying group.

Also in August, Ohio banned the outsourcing of government IT projects to offshore destinations such as India. "There's some level of concern," says P.R. Chandrasekar, chief executive of Mumbai-based **Hexaware Technologies**. "You don't want other states to do that."

Their growth hindered by the recession, Indian outsourcing companies are now poised to benefit as business recovers. Spending on outsourcing by American companies and governments is likely to jump 5.6 percent this year, according to Forrester Research, as clients start spending on IT again. Mumbai-based **Tata Consultancy Services** (TCS), India's largest software exporter, announced on Oct. 22 record second-quarter sales in North America of $1 billion. "We see phenomenal growth in demand," says Vish Iyer, head of Asia Pacific operations. "They need help from people like us."

The worry is that protectionist measures in the U.S. could

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worldmags

Safety? The NFL's labor pain page 23 ▶



quickly change the outlook from robust to dreadful in a market that represents 61 percent of India's $50 billion in annual IT service exports. Two-thirds of Hexaware's $215 million in revenue last year came from the U.S. Bigger Indian companies rely on the American market, too. U.S. sales accounted for 57.5 percent of TCS's revenue for the year ended March 2010, and North America made up 66 percent at Bangalore-based rival **Infosys Technologies**, according to Bloomberg data.

Indian executives know they must diversify, yet they have had limited success generating new business in markets beyond North America and Western Europe. Their presence in Japan is insignificant, says Arno Franz, president of Asia Pacific for sourcing advisory firm TPI. Indian outsourcers have high hopes for China, where they are hiring engineers to work on projects for multinational and local customers. "They are placing most of their bets on China," says Franz. "But it takes years and years." India's major IT companies only employ around 5,000 people in China, according to a **Goldman Sachs** report, and generated sales of just $257 million.

That means India's IT companies have to keep building their business in the U.S. while their efforts elsewhere slowly take root. To defuse the outcry about companies shipping American jobs offshore, Indian firms are trying to build up local staffs.

**Mahindra Satyam**, a Hyderabad-based company that on Oct. 13 announced a contract to design a document-management system for the Kentucky state government's health and family services department, has so-called near-shore operations in 11 countries, including the U.S. It wants to be positioned in the U.S. and elsewhere to hire locally. "Firms are more comfortable with near-shore centers," says the firm's chief executive CP Gurnani. As a result, "dependence on U.S. visas is reducing." About 20 percent of employees are outside India, he says, up from zero in 2006.

The uncertainty surrounding visa rules and state outsourcing policies might accelerate the trend of Indian companies making acquisitions in the U.S. Indian outsourcers have already done $1.9 billion worth of technology acquisitions in North America over the past decade, according to Bloomberg data.

Despite the anti-outsourcing political rhetoric in the U.S., Western companies seeking productivity gains will continue to have a big incentive to shift work overseas to save money. "Anything between 30 to 80 percent of the work," says Sanjoy Sen, senior director at **Deloitte Touche Tohmatsu** in Hyderabad, "can be potentially done from India."

*—Bruce Einhorn with Ketaki Gokhale*

***The bottom line*** *Indian outsourcers fear that a U.S. backlash over job losses will endanger their biggest overseas market.*



Austerity

## London's Tory Mayor Defies the Tory Party



▶ Mayor Boris Johnson rakes Cameron over rent subsidies

▶ "It would be fiscal suicide to have starved [London] of fuel"

When U.K. Prime Minister David Cameron unveiled his ambitious plans to cut welfare benefits, he expected brickbats from the opposition Labour Party. What he might not have counted on was Boris Johnson, London's mayor and a fellow member of the Conservative Party (above), blasting the Tory leadership's proposals.

Johnson has raised the alarm about the possible effects on the U.K. capital of Cameron's plans to reduce social-housing subsidies, a step that may force people on low incomes to move to areas where rents are cheaper. "The last thing we want is a situation such as Paris where the less-well-off are pushed out to the suburbs," Johnson told BBC London on Oct. 28. "We will not

# Tom Keene's EconoChat

Tom talks with University of Chicago finance professor **Raghuram Rajan** about the fallout from the financial crisis

**You were one of the first economists to see the crisis coming. What did you see that others didn't?**
Well, this was 2005 and I saw what most others saw, which was a financial sector taking more and more risk. What I did not accept was that the industry had it under control. And I was very worried about the incentive structures.

**You mean executive pay?**
Yes, and also the fact that you knew if you made mistakes, you could walk across the street to another firm.

**That hasn't changed, has it?**
It hasn't, and I think that's part of the problem.

**Professor Rajan, will we see more equitable income distribution as we come out of the crisis?**
Well, I don't think the appetite for redistribution in the U.S. is that strong, in part because I think the rich nowadays are the working rich, rather than the idle rich. What we need to do is increase the capabilities of the workforce that's being left behind. Far too many Americans don't have a high school degree. Far too many stop after getting it and don't get a college degree. If you look at unemployment rates right now for those who have college degrees, it's half that for those without. I think the markets are showing that the U.S. has a mismatch. And if that mismatch grows, you get an under-confident U.S.



*Keene hosts* Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

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## Global Economics

accept any kind of Kosovo-style social cleansing of London."

Similar attacks from Labour lawmakers had been slapped down in the House of Commons. Johnson's protests will be harder to brush off. The difficulty for the government is that the mayor's vocal championing of London, which was useful while the Conservatives were in opposition, is in danger of muddying the Tory refrain: "We are all in this together." A personal rivalry may be at work as well. **Ladbrokes**, the betting agency, is quoting 4 to 1 odds that Johnson succeeds Cameron as head of the Conservative Party.

Johnson, known for his unruly shock of hair and rhetorical outbursts, announced on Oct. 20 that after "months of hard negotiations" he had persuaded the government to maintain investment in the capital. "London is the engine of the U.K.'s economy, and it would be fiscal suicide to have starved it of fuel," he said.

Eight days later he was attacking the government's plans to cut annual rent subsidies by 8 percent, or $3.2 billion, by 2014-15. London Councils, the umbrella group for London's 33 local authorities, estimates that as many as 82,000 households in the capital will become homeless as a result of the cuts. Cameron's spokesman, Steve Field, says the government estimates the cap will affect only 21,000 benefit claimants, 17,000 of whom are in London. Johnson says he is "in detailed negotiations" with the Department for Work and Pensions to get transitional relief.

The emphasis on the capital has angered some elsewhere in the U.K. Rachel Reeves, a Labour lawmaker for Leeds and a former Bank of England economist, says one local housing charity has told her that 15,000 families in her city will be affected by rising rents. "This is not just a London phenomenon; this will hit families and pensioners up and down the U.K.," she says.

As for Cameron, he's not backing down, at least for now. "The Prime Minister does not agree with what Boris Johnson has said or, indeed, the way he said it," Field told reporters shortly afterwards. Ⓑ

*—Thomas Penny and Kitty Donaldson*

***The bottom line*** *Prime Minister Cameron has been blindsided by criticism of his budget cuts by London's mayor and fellow Tory, Boris Johnson.*



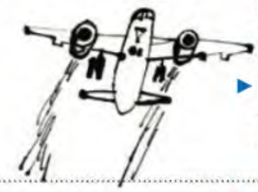
Events of note in the week ahead

# Seven Days

by Caroline Winter

**08**

U.S. Employment Index



▶ **Chrysler earnings:** Operating profits may improve, but interest payments to the government will likely push the carmaker to a net loss.

▶ **Priceline.com earnings:** Wall Street expects sales to approach $1 billion, helped by a rise in European travel.

**09**

Japan's Leading Economic Index

George W. Bush's presidential memoir, *Decision Points*, released

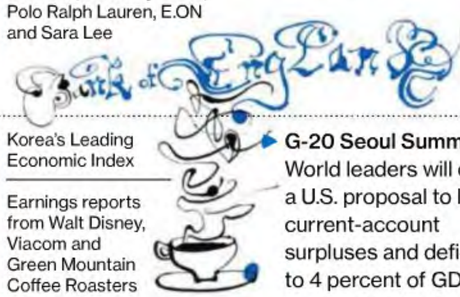


▶ **Vodafone earnings:** With declines in profits expected, the CEO will announce a new plan to focus on data services and minority holdings.

**10**

Bank of England quarterly inflation report

Earnings reports from Siemens, Cisco Systems, Polo Ralph Lauren, E.ON and Sara Lee



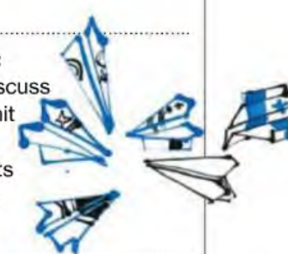
▶ **Macy's earnings:** Analysts estimate the retailer's earnings will grow for the fifth straight quarter.

**11**

Korea's Leading Economic Index

Earnings reports from Walt Disney, Viacom and Green Mountain Coffee Roasters

▶ **G-20 Seoul Summit:** World leaders will discuss a U.S. proposal to limit current-account surpluses and deficits to 4 percent of GDP.



**12**

Earnings report for J.C. Penney, Wendy's/Arby's Group, and Agilent Technologies

▶ **U.K. Leading Economic Index:** Britain's LEI has been rising since April 2009, though at a slower pace.



**13**

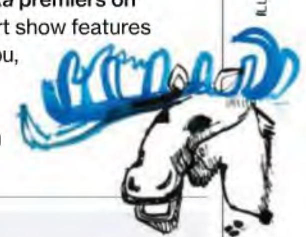
Two-day Asia-Pacific Economic Cooperation (APEC) leaders meeting in Yokohama, Japan

▶ **Title Fight:** Filipino congressman and boxing champ Manny Pacquiao will fight American Antonio Margarito for the World Boxing Council super welterweight title at the Cowboys Stadium in Arlington, Tex.

**14**

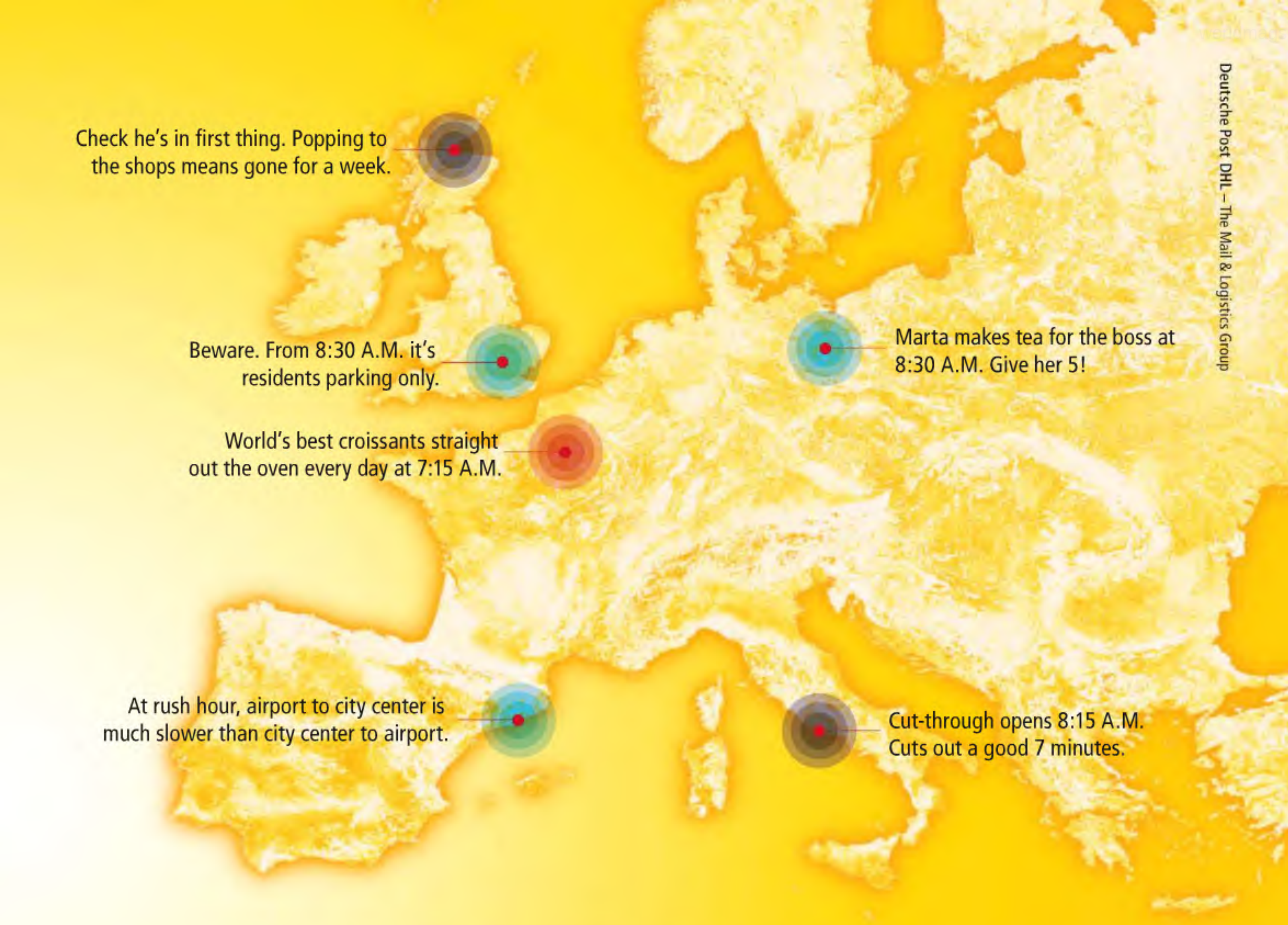
NFL: The New England Patriots visit the Pittsburgh Steelers

▶ ***Sarah Palin's Alaska*** **premiers on TLC:** The eight-part show features her tracking caribou, salmon fishing, off-roading, and spending time with her family.



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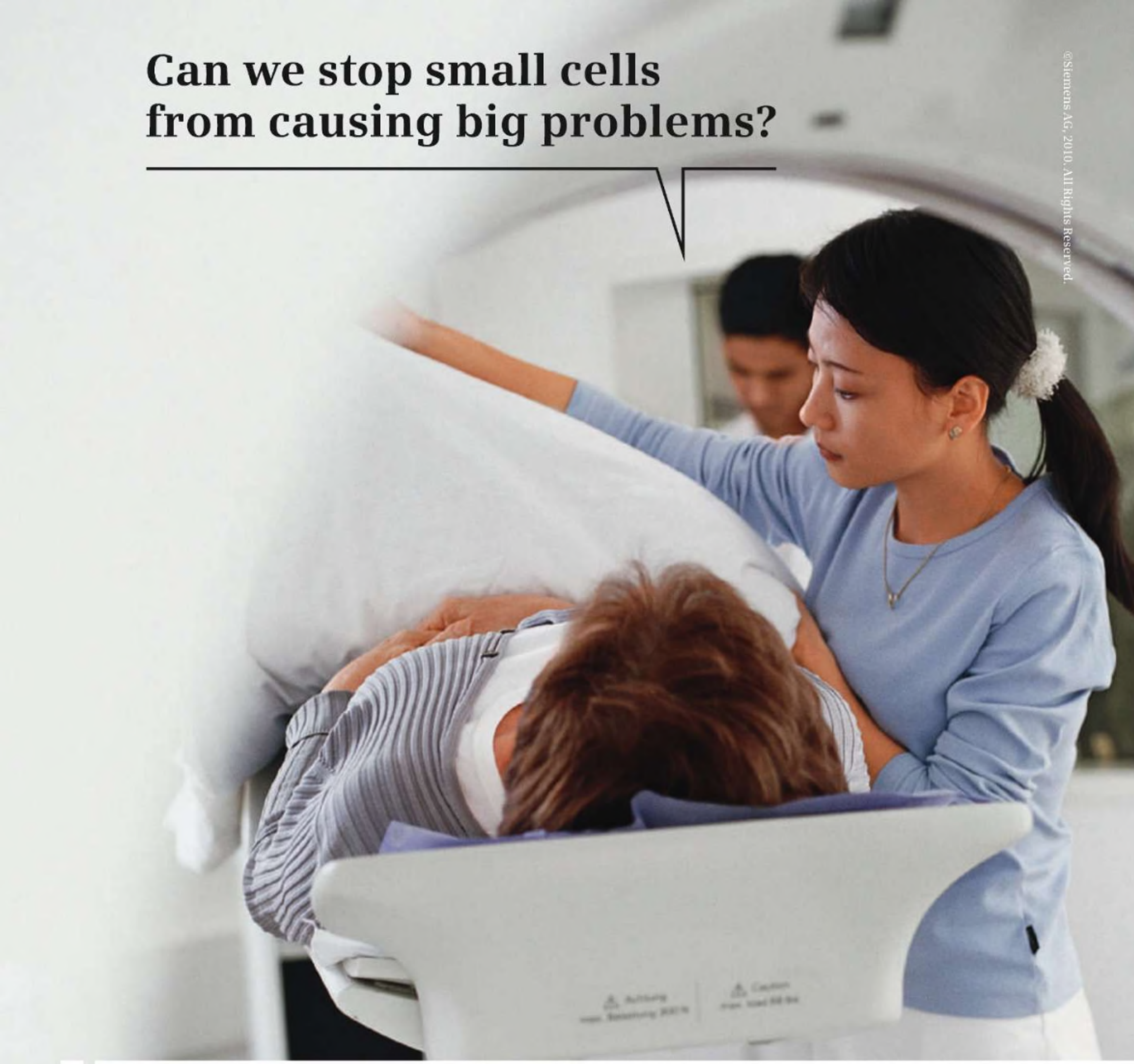
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Contents ▶ Another U.S. road trip for Fiat 24 ▶ Emerging-market telecoms and their surprising buyers 25 ▶ Why for-profit colleges target veterans 26 ▶ Are shipping containers the next security threat? 28 ▶ Business briefs 30 ● Edited by James E. Ellis





DAVID EULITT/KANSAS CITY STAR/MCT/GETTY IMAGES

# The NFL's Pain Paradox

▶ Safety fines highlight divisions between players and owners

▶ "I'm not saying take away from the violence of the sport"

Brett Favre's record 292nd consecutive start ended Oct. 31 when New England Patriots defensive lineman Myron Pryor hit him in the mouth. The National Football League's three-time Most Valuable Player limped off the field at New England's Gillette Stadium with blood pouring from a laceration on his chin that required eight stitches to close, on an ankle already fractured in two places from a previous injury. "Going into the tunnel on the cart, I thought to myself for a brief second, 'What in the world am I doing?'" Favre told reporters afterward.

The Minnesota Viking's injury is among a rash of recent hits that have cast a spotlight on the violence inherent in America's most watched TV sport. At a time of mounting concern that NFL collisions may cause neurological disorders in some former players, this season's run of serious injuries has many players upset—though not for the reasons one might assume. What has the NFL Players Assn. miffed is the disconnect between team owners calling for more safety on the field while simultaneously



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## Companies&Industries

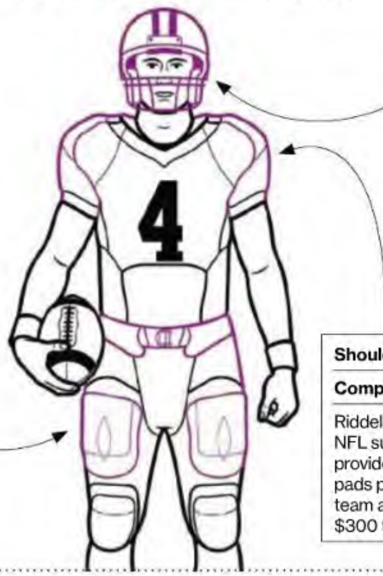
### Protecting the Pros

The NFL rule book requires players to wear helmets, jerseys, pants, shoulder pads, stockings, and shoes. Hip, thigh, and knee pads are only recommended.

**Hips and Thighs**

**Company: Shock Doctor**

According to the NFL, only half of players wear lower body padding. In a pilot program during this year's preseason, the league supplied 12 teams with padded shorts from a handful of vendors. Minneapolis-based Shock Doctor, for one, provided 60 pairs of its $69 five-pad (two hips, two thighs, and a tailbone) extended-thigh shorts.



**Helmets**

**Company: Riddell**

The NFL's official helmet supplier, a unit of Easton-Bell Sports, says it offers teams five helmet models at a cost of $200 to $275.

**Shoulder Pads**

**Company: Riddell**

Riddell, the largest NFL supplier, provides 50 to 100 pads per year to each team at a cost of $300 to $400 each.

asking the union in current contract negotiations to play longer and harder by adding games to the season.

"Everyone agrees the players have gotten bigger, faster, and stronger and the game is more dangerous and violent," says Gabriel Feldman, director of the sports law program at Tulane University Law School in New Orleans. "It becomes more difficult for the owners to argue that on one hand we need to make the game safer, because players are getting hurt every time they go out there in the field, and then saying we want them on the field more often."

Owners say the existing collective labor agreement, originally intended to run until 2012, needs revising now since it fails to reflect the new cost pressures on the game, especially the costly construction and upgrades of stadiums in recent years. Owners propose extending the playing season to 18 games from 16, while halving the four-game preseason.

DeMaurice Smith, executive director of the NFL Players Assn., says the league's plan to extend the season should address post-career health care, pensions, and a workers' comp system that's fair to players, who have an average career length of 3½ years. Since 2006, an average of 415 players have ended the season on a list of players who are injured and unable to play, according to union data. Players receive five years of post-career benefits– but only after completing three seasons. One union concern: Adding two games per year would mean players need to play the equivalent of almost an extra half-season before they earn coverage, Smith says.

"If you're representing a group of food process workers and management comes in and says, 'hey, we're going to speed up the production line and we know that by speeding up the line, there's an increased risk of serious injury to the workers,' how does that factor in to what's a safe environment? What's the right compensation?" Smith asks. "If that happens in a traditional work environment, no one would be surprised if you started asking all those questions."

For now, the NFL is talking tough about safety. Last month, after a weekend rash of injuries in professional and college football, including a hit that paralyzed Rutgers University defensive lineman Eric LeGrand, the league fined three players a total of $175,000 and warned that even first-time offenders could be suspended for flagrant illegal hits.

Commissioner Roger Goodell distinguishes between health care and safety. "Health care is part of any discussion you have on collective bargaining," he told Bloomberg Television on Oct. 29. "The safety issues go way beyond that to me."

Still, even some injured players aren't saying football should be less raw. Former New York Jets quarterback Ray Lucas likens getting tackled in the NFL to getting hit by a truck–repeatedly. He says he suffered so much pain after his seven-year NFL career that he sank into depression and addiction and considered driving off the George Washington Bridge before having a three-inch steel plate implanted in his neck to ease the hurt. "The game is violent," Lucas says. "I played it. I loved it. I'm not saying take away from the violence of the sport. I'm saying take care of the players." *—Aaron Kuriloff and Ira Boudway*

***The bottom line*** *The NFL's recent public emphasis on safety on the field has become a divisive issue in its labor negotiations with the players' union.*

Autos

## Fiat Tries Another Breakfast in America

▶ The Italian carmaker hopes its small 500 will propel its U.S. return

▶ "My ultimate goal would be ... [no] traditional advertising"

Sam Germana, a lawyer who bought his first **Fiat** in 1982, still has fond memories of *la dolce vita* behind the wheel of his Italian import. So he jumped at the chance to plop down $500 to reserve a special first-edition version of the 500, the tiny car Fiat hopes will make a big splash as the brand returns to the U.S. market this winter. Germana, who lives on New York's Long Island and commutes to New Jersey for work, has driven the European version and figures

### Fiat's American Round-Trip



**1903**

**Four years after Fiat was founded in Turin, the automaker begins exporting cars to the U.S. Those early models? The 24-horsepower and 32-horsepower Corsa.**

**1969**

***The Italian Job*, starring Michael Caine, is famous for its Mini Coopers, but that's a Fiat DinoCoupe giving chase.**



ILLUSTRATION BY JAMESON SIMPSON; TIMELINE: RONALD GRANT/EVERETT COLLECTION (1); RON AVERY/MPTV IMAGES (1); BILL PUBLIANO/GETTY IMAGES (1); BARRY HATHAWAY (1)



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it will be perfect for his daily commute. "The Fiat is put together like a **Toyota**, it is really solid," Germana says of his test drive. "It was a blast to drive."

Fiat hopes there are many more customers who fondly recall the sporty Fiat image of bygone days–and are willing to forget reliability problems that plagued the automaker (some owners said its name stood for Fix It Again, Tony) before it pulled out of the U.S. market in 1983.

The Fiat 500 subcompact, known as the Cinquecento in Italy, has already sold 500,000 units since 2007 in other parts of the world. Its U.S. starting price is expected to be about $15,000. Fiat hopes to sell 50,000 of the tiny fuel misers in its first year in the U.S. (no mileage rating has been determined yet), mostly in urban areas where traffic and scant parking make small cars attractive.

The Fiat brand's return to North America comes about 18 months after the Turin-based automaker gained control of **Chrysler Group**. The U.S. company's infrastructure is key to the effort: The 500 will be built at a Chrysler factory near Mexico City, starting in December, and it tapped existing Chrysler dealers to open new Fiat showrooms.

Chrysler has hired a marketing executive from **Volkswagen**, Laura J. Soave, a first-generation Italian American, to help translate the feeling of the Fiat brand to U.S. car buyers. Soave, who has a picture of herself visiting Italy as a small child, standing atop a Fiat, has been working on a grassroots marketing campaign to build support among longtime Fiat fans. She showed up in July in Asheville, N.C., for an annual gathering of Fiat-Lancia Unlimited, which claims to be the largest Fiat enthusiast group in North America. She's since donated a Fiat 500 to the National Italian American Foundation for a fundraiser.

Chrysler declined to make Soave available for an interview in advance of the Los Angeles Auto Show later this month, where the Fiat 500's U.S. version will be displayed. Two people familiar with her efforts say she'll concentrate on developing "experiential" marketing of the car, mostly in showrooms through high-service selling that focuses on adding options to let buyers personalize their cars. Rather than broad advertising pitches, they say she's likely to use social media and other grassroots approaches to target likely buyers and lure them into showrooms for individual treatment. "My ultimate goal would be not to spend one dollar in traditional advertising," says Phil Bivens, a Tacoma (Wash.) dealer who will open a Fiat store.

Fiat faces plenty of obstacles, analysts say. The small car is being introduced into a market crowded with competitors, including the new **Ford** Fiesta and **General Motors**' upcoming Chevrolet Spark. While researcher IHS Automotive predicts the U.S. subcompact market will grow 150 percent to more than 1 million by the end of 2015, IHS analyst Rebecca Lindland cautions that the growth is being pushed not by consumer demand, but by automakers' beliefs that small cars will become more popular. "Everyone is tooled up for this, and everyone is all excited about consumers buying small cars–except consumers," Lindland says.

European competitors such as **Daimler**'s Smart and **BMW**'s Mini small cars have seen sales fall lately. Smart sales have plunged 61 percent so far this year from the year-earlier period. Mini sales are down 1.6 percent, according to researcher Autodata.

Fiat decided to eschew selling Fiat vehicles next to Chrysler's Ram pickups and Jeep SUVs and now must quickly and smoothly open about 165 showrooms. "You had to get into a building, a separate establishment" for a Fiat dealership, where somebody could come in and truly feel like they were at an **Apple** store, says Fred M. Diaz, Chrysler's lead sales executive. Adds Tacoma dealer Bivens: "The Italian style and design and fashion will all play a clear role in who we hire and how we train them and how they communicate. It will not be a traditional car dealership experience."
—*Tim Higgins*

***The bottom line*** *A quarter-century after it pulled out of the U.S. market, Fiat is back with a small car built and sold with the help of its partner, Chrysler.*



**1975**

**Fiat sales rise to 101,820 in the U.S., helped by high fuel prices. The Fiat Spider is popular.**

**1983**

**Fiat pulls out of the U.S. after selling just 6,800 vehicles that year. Poor quality earns it the nickname "Fix It Again, Tony."**





**2009**

**Fiat CEO Sergio Marchionne takes control of Chrysler as part of the U.S. automaker's bankruptcy reorganization.**

**2010**

**Production begins for the U.S. version of the Fiat 500. The current iteration came out in 2007 and sold more than 500,000 cars in more than 80 countries. It was named the 2008 European Car of the Year.**



DATA: WARDSAUTO.COM, AUTODATA CORP., CHRYSLER GROUP

Telecommunications

## Small Fish Devouring Other Small Fish

- **Emerging-market telecoms are driving the latest round of buyouts**
- **"What is the...future of an entity with 2 or 3 million subscribers?"**

Cash-rich Western telecommunications companies like to talk about expanding into emerging markets. Yet right now it's the smaller players in developing countries that are doing most of the deals. Data compiled by Bloomberg show that so far this year emerging market telecoms beat Western rivals 10 to 1 in terms of money spent on deals valued at more than $1 billion. With $126 billion of telecommunications mergers and acquisitions in emerging nations, up threefold from the comparable period in 2009, the race for assets in markets across Africa, Asia, Eastern Europe, Latin America, and the Middle East shows no sign of abating. Spanish telecom **Telefónica**'s $9.6 billion takeover of Brazil's No. 1 mobile-phone operator was the only deal this year over $1 billion for an emerging-market asset that involved a major Western player. The rest were led by Mexico's **América Móvil**, Russia's **VimpelCom,** and



The challenge for Rubio and the GOP page 33 ▶

the United Arab Emirates' **Emirates Telecommunications**, better known as Etisalat. "The emerging-market players are much more confident about taking on risk and M&A expansion," says Christian Lesueur, head of UBS's telecommunications investment banking division for Europe, the Middle East, and Africa. "They don't have a lot of cash, but their balance sheets are not that highly geared [leveraged]."

**$126 BILLION**

Value of telecom M&A deals in emerging markets in 2010

Big Western telecommunication companies, some of which have been burnt by earlier investments, aren't expected to sit on the sidelines for long. "My expectation is to see Western players reenter these markets because that is where they will find growth," says Nader Mousavizadeh, chief executive officer of U.K.-based Oxford Analytica, an economic analysis and advisory firm.

That's why for emerging-market operators, the name of the game is eat or be eaten. Those that don't bulk up through acquisition risk becoming takeover bait themselves–or being elbowed out of the market by larger rivals. "You need an international footprint," says Vincent le Stradic, who manages Lazard's European, Middle East, and Africa telecom group. "In a moving sector like this, what is the long-term future of a single entity with 2 to 3 million subscribers?"

The number of large-scale targets is dwindling, following this year's string of deals. One possible candidate is **Millicom International Cellular**, with more than 30 million customers in emerging markets and a market value of about $10 billion, says Mark James, an analyst at Liberum Capital in London. Emily Hunt, a spokeswoman for Luxembourg-based Millicom, declined to comment. VimpelCom says it may sell the Algerian unit of **Orascom Telecom Holding**, which it will acquire as part of its pending $22 billion merger with **Weather Investments**. The Russian company values the unit at $7.8 billion. Etisalat, the UAE's biggest phone company, is also seeking a buyer for the Saudi operator it will pick up as part of its pending $12 billion takeover of **Zain**'s Middle East assets. In Eastern Europe, Serbia wants almost $2 billion for its stake in **Telekom Srbija** and may attract companies including **Deutsche Telekom**, **Telekom Austria**, and **France Telecom**.

Some European telecommunications companies have recently flagged developing markets for expansion. France Telecom has said it may spend up to $9.7 billion on emerging-market deals by 2015, while U.K.-based **Vodafone Group**, the world's largest mobile operator by revenue, is targeting sub-Saharan Africa and India as "priority areas" for expansion. U.S. carriers, none of which has made an acquisition of more than $1 billion in those regions, seem to be in no mood to go shopping abroad. UBS's Lesueur says the prevailing attitude among many Western players is "don't do M&A, and give our money back to shareholders in dividends."

There's reason to be cautious. Many Western carriers have sustained losses in developing markets. The Indian unit of Norway's **Telenor** racked up $646 million of operating losses in the first nine months of this year, after its debut in the Indian mobile-phone market in December 2009. Vodafone booked a $3.3 billion charge for its Indian unit in May, citing fierce price competition. "Poison is always a matter of the dosage," says Hamburg-based Boris Boehm, who helps manage about €1 billion ($1.4 billion) at Aramea Asset Management, including France Telecom and Vodafone shares. "Western companies have certainly had some bad experiences in emerging markets." *—Jacqueline Simmons and Matthew Campbell*

***The bottom line*** *Western telecommunications giants are on the sidelines while emerging-market players are scooping up their peers.*

### Big Deals In Unlikely Places

The largest emerging-market telecommunications mergers announced in 2010

| Country | Buyer | Target | Price (billions) |
|---|---|---|---|
| Mexico | América Móvil | Carso Global Telecom | $25.7 |
| Russia | VimpelCom | Weather Investments' phone assets | $22 |
| UAE | Emirates Telecommunications (Etisalat) | Zain's Middle East telecom assets | $12 |
| India | Bharti Airtel | Zain Africa | $10.7 |
| **Spain** | **Telefónica** ◀ | **Portugal Telecom's Brasilcel unit** | **$9.6** |
| Mexico | América Móvil | Telmex Internacional | $6.4 |
| China | China Mobile | Shanghai Pudong Development | $5.8 |
| Brazil | Embratel Participações | NET Servicos de Comunicação | $3.7 |
| Russia | Rostelecom | Central Telecommunications | $1.9 |
| India | GTL Infrastructure | Tower Portfolio | $1.8 |

DATA: BLOOMBERG

**Only the Telefónica deal involved a major Western buyer**

Education

## Online Colleges Target Benefit-Rich Vets

▸ **For-profit colleges use veterans to sidestep federal financial aid rules**

▸ **The schools need "some skin in the game beyond our dollars"**

Keith Melvin, a disabled and decorated Iraq War veteran, wanted to go to a traditional college until a recruiter for the online, for-profit Kaplan University began courting him. She assured him, he said, that he could trust Kaplan because it's owned by **Washington Post Co.**, and because the Post's board boasts such luminaries as Warren Buffett and Melinda Gates. "I was more familiar with Jimmy Buffett than I was with Warren Buffett," Melvin says.

After learning the difference between the Sage of Omaha and the Sage of Margaritaville, Melvin enrolled at Kaplan last year. Invoking Buffett and Gates is one of many ways Kaplan attracts veterans–and the public funds used to pay their tuition. Federal spending on veterans' education will more than double this year, to $9.6 billion from $4.2 billion, says the U.S. Veterans Affairs Dept., largely because of a more generous GI Bill that took effect in August 2009. It pays veterans' tuition up to the level of their state's most expensive public university.

Kaplan ranked third in 2009 in the number of students funded

ALAN DIAZ/AP PHOTO



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3 subsidiaries
5 expansion plans
2 strategic options
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### Looking for a Few Good Vets

Top 10 colleges with the most students receiving veterans benefits in 2009

| School | For-profit | Veterans enrolled |
|---|---|---|
| University of Phoenix online & Axia College at UOP | ✓ | 22,881 |
| American Public University System | ✓ | 6,805 |
| Kaplan University | ✓ | 5,500 |
| Ashford University | ✓ | 5,051 |
| Colorado Technical University | ✓ | 5,047 |
| American Intercontinental University | ✓ | 3,796 |
| **University of Maryland University College** | | **3,792** |
| Grantham University | ✓ | 3,769 |
| **Central Texas College** | | **3,303** |
| DeVry University online | ✓ | 2,637 |

Public colleges: the only two of the top 10 that aren't for-profits

DATA: U.S. VETERANS AFFAIRS DEPT.

by veterans' benefits, behind two other for-profits, **Apollo Group**'s University of Phoenix and **American Public Education**'s American Public University System. Eight of the top 10 colleges were for-profits. "These schools are after the monetary gain of a healthy benefits package, not necessarily what's in the best interest of students," says Donald D. Overton Jr., executive director of Veterans of Modern Warfare, a service group with 5,000 post-1990 veterans as members. Kaplan spokeswoman Melissa Mack says: "Kaplan has received significant interest from veterans because of our military-friendly practices." She says recruiters aren't encouraged to use the names of Buffett and Gates.

Enrolling veterans helps for-profit colleges exploit a loophole in a 1992 law capping the proportion of revenue they can derive from federal student aid at 90 percent. Tuition paid to for-profit colleges under the GI Bill counts as non-government revenue. Kaplan University, which derived 87.2 percent of its revenue in 2009 from taxpayer-funded education aid such as Pell Grants for poor students, may have exceeded 90 percent if revenue from the GI Bill and U.S. Defense Dept. tuition assistance for active-duty military was added, says Bradley Safalow, chief executive of PAA Research, which analyzes higher education stocks.

U.S. Education Secretary Arne Duncan, whose department is pushing tighter regulation of for-profit colleges, expressed concern in September that some schools may violate the spirit of the law, which was meant to ensure that they offer an education good enough that some students are willing to pay for it out of their own pockets. For-profit colleges should have "some skin in the game beyond our dollars," Duncan said.

Veterans often don't complete degrees or land lucrative jobs after attending for-profit schools. At Kaplan University, only 30 percent of two-year students and 33 percent of four-year students graduate. Spokesman Ron Iori says Kaplan's graduation rates are higher than many traditional schools that also serve a predominantly low-income student body like its own.

Iraq vet Scot Reynolds, who earned a bachelor's degree in management from Kaplan University in 2009, now works as a telemarketer for $8 an hour plus commission–less than he made before he graduated. "My income has drastically dropped," he says. "Kaplan was extremely limited with help in finding work." Iori says Kaplan provides a wide array of job placement services.

Kaplan, long known for preparing high school students for the SAT college admissions exam, derived 64 percent of its revenue in the quarter ended July 4 from its higher education division. The unit includes predominantly online Kaplan University, with 75,000 students, as well as Kaplan colleges, which have 37,000 students on 60 campuses.

About 11,000 Kaplan University students, or 15 percent of its enrollment, are veterans, active-duty service members, or military spouses, up from 8,500 a year ago. The school targets the more than 1.2 million veterans of the Iraq and Afghanistan Wars, who are eligible for richer benefits under the revised GI Bill, by advertising in military-related magazines such as *Army Times* and *G.I. Jobs*, exhibiting at job fairs for current and former service members, and sponsoring events held by Amvets, the country's fourth-largest veterans' organization. Veterans "can virtually go to Kaplan with no out-of-pocket expenses," Kay Houghton, Kaplan director of corporate alliances, said as she handed out brochures at the Amvets national convention in Louisville in August. —*Daniel Golden*

***The bottom line*** *Washington Post Co.'s for-profit college, Kaplan University, has used the prestige of its parent to attract veterans and their federal aid.*

## Quoted

**"BP is now going to become incredibly focused on managing the risks, for example, of deepwater. It's not going to shy away from the risk; it is going to get even better at it."**

—Robert Dudley, BP's chief executive, on the oil giant's determination to continue drilling in sensitive areas like the Gulf of Mexico



ALASTAIR GRANT/AP PHOTO

Global Shipping

## So Many Containers, So Little Scanning

▶ Cargo still goes unchecked almost a decade after September 11

▶ "If I were an adversary... this is the system to target"

Two years ago, South Korea's busiest port installed a $3.5 million scanner to check U.S.-bound shipping containers for nuclear weapons. The machine sits idle, however, because truckers won't drive through it. They're afraid of radiation exposure. That means about 1.9 million containers left Busan for American ports last year without U.S.-mandated screening. Singapore and Hong Kong, the world's busiest and third-busiest ports, also don't participate. Fewer than 1 percent of the 14.5 million cargo boxes reaching the U.S. by water are scanned abroad for terrorist threats, the U.S. government says. "The system remains very vulnerable," says Stephen Flynn, president of the Center for National Policy, which studies security. "If I were an ad-


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versary who wants to cause mass destruction to the global economy, this is the system to target."

Although the security of air cargo has grabbed headlines in the wake of the discovery in late October that terrorists in Yemen had planted explosives in packages destined for Chicago, 90 percent of cargo is carried by sea. About 14.5 million loaded twenty-foot equivalent containers reached the U.S. last year, says the U.S. Army Corps of Engineers. Homeland Security Secretary Janet Napolitano says high costs and technology challenges mean a July 1, 2012, deadline for inspection of 100 percent of cargo from overseas will be pushed back at least two years. The Secure Freight Initiative requires the U.S. to buy scanners and install them after reaching agreements with host countries. It did not specify who will pay the full cost.

That's one reason the mandate is opposed by the Retail Industry Leaders Assn. (RILA), whose members include **Apple**, **Costco Wholesale, Home Depot**, **Nike, Target**, and **Wal-Mart Stores.** RILA supports current programs requiring shippers to send cargo manifests to Homeland Security 24 hours before a container leaves a foreign port, says Kelly Kolb, the group's vice-president for supply chain policy. "It's not effective or feasible to scan every container that meets our shore," she says. Napolitano told a Senate panel in December it would cost $16.8 billion to deploy scanners in all ports. Customs so far has spent $61 million.

"Most observers have serious doubts about whether that will ever be implemented," says Ron Widdows, chief executive officer of Singapore-based **Neptune Orient Lines**, owner of Asia's second-largest container company by capacity. It would cost 10 percent more to ship goods from Europe to the U.S. if the mandate were instituted, according to a European Commission staff report. European countries would spend €430 million ($595 million) initially to comply and €200 million annually after that, according to the document. Says Kurt Nagle, president of the American Association of Port Authorities: "It could actually bring the flow [of trade] to a screeching halt." —*Angela Greiling Keane and Kyunghee Park*

***The bottom line*** *Despite a requirement that all cargo containers be scanned for terrorist threats before entering the U.S. by 2012, less than 1 percent are.*



# Briefs

by Caroline Winter

## MasterCard
### Spending abroad lifts results

MasterCard beat Wall Street expectations when it posted a 15 percent increase in net income, to $518 million, for the third quarter. The world's second-biggest payments network says spending on MasterCard- and Maestro-branded cards climbed 7.9 percent globally, led by Asia and Latin America. Stateside, purchases with MasterCard-branded debit cards jumped 32 percent, a sign that U.S. consumers are switching from cash to plastic. MasterCard and Visa are watching to see how the Federal Reserve interprets the new mandate it received from Congress as part of the financial regulatory overhaul to cap the fees the companies charge merchants on debit-card transactions.

## Kellogg
### The cereal maker's sales keep sliding



Kellog reported a 6.4 percent drop in third-quarter profits, to $338 million. The culprit: falling sales in North America, which accounts for about two-thirds of revenue. Kellog trimmed its 2010 earnings forecast in October, citing heightened competition and slumping demand following a June recall of 28 million boxes of Froot Loops, Honey Smacks, Apple Jacks, and Corn Pops. One risk on the horizon, analysts say, is that strapped consumers will trade down to private-label brands as Kellogg and rival General Mills dial back on promotions.

## General Motors
### IPO plans are in high gear

General Motors plans to raise as much as $10.6 billion in an initial public offering that will pare back the U.S. and Canadian governments' stakes in the bailed-out carmaker, according to a Securities and Exchange Commission filing. GM, which is 61 percent owned by the U.S. Treasury, will offer 365 million shares priced at $26 to $29. A road show to market GM to investors in North America and Europe got under way on Nov. 4, one day after the automaker reported a better-than-expected 3.5 percent increase in U.S. auto sales for October.



## Metro-Goldwyn-Mayer
### The studio files for bankruptcy

Metro-Goldwyn-Mayer, distributor of the James Bond and Rocky movies, filed for bankruptcy on Nov. 4 after rejecting a $1.7 billion takeover bid by Lions Gate Entertainment and billionaire Carl Icahn. The Hollywood studio, which foundered after a leveraged buyout, has creditor support for a prepackaged bankruptcy plan to extinguish about $4 billion of debt and install managers from Spyglass Entertainment. Under the plan, creditors will swap their debt for stock in a streamlined company.



## Apple
### Return on cash is nano-sized

**$51 BILLION**

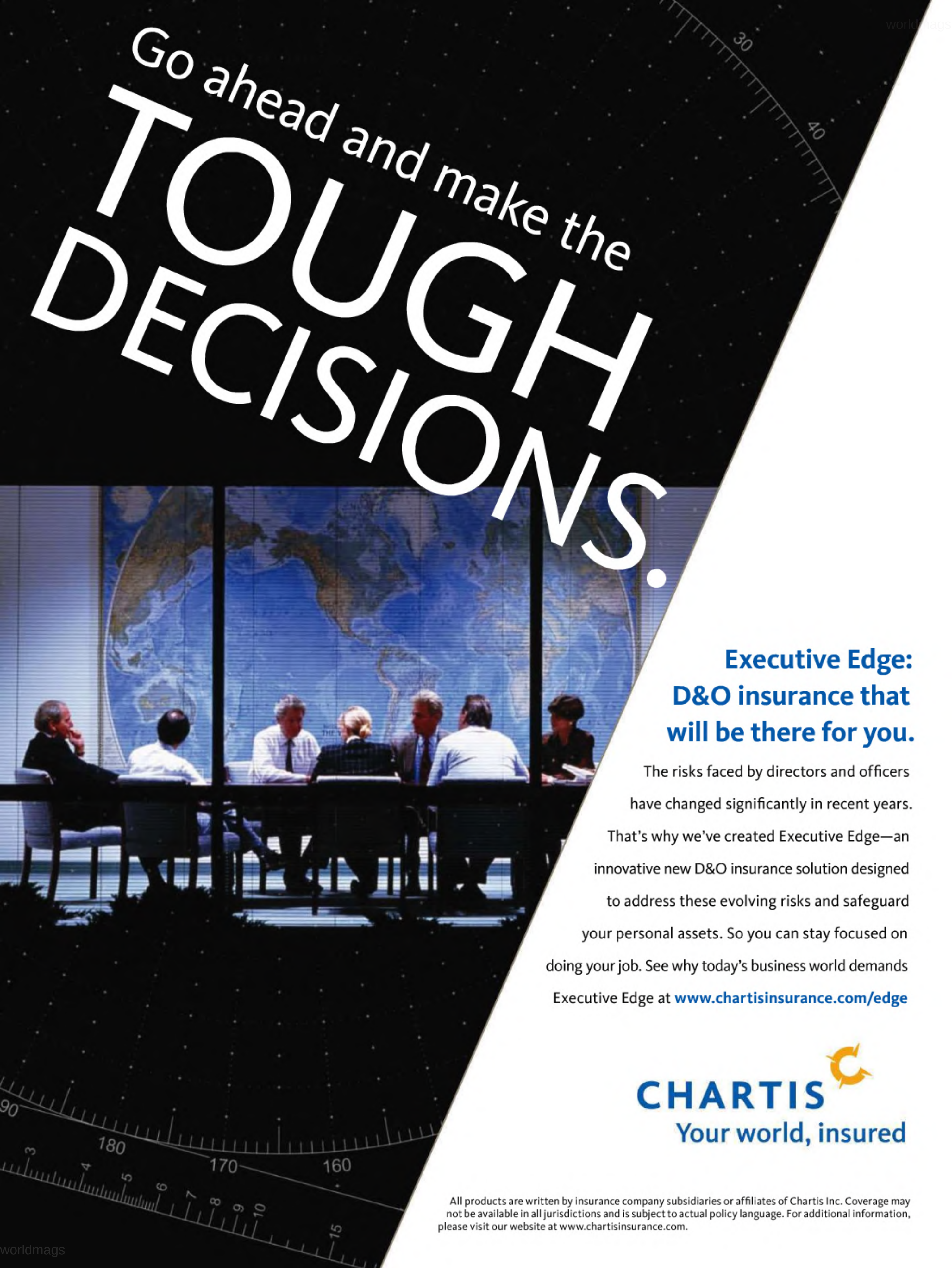
Apple earned 0.75 percent on its $51 billion in cash and investments in its last fiscal year, according to a regulatory filing. That's a lower return than a typical U.S. savings account and pales next to the roughly 10 percent investors would have earned from the Standard & Poor's 500-stock index over that time. Apple doesn't pay a dividend. In a conference call last month, CEO Steve Jobs said: "We'd like to continue to keep our powder dry because we do feel that there are one or more strategic opportunities in the future."

**On the Move**

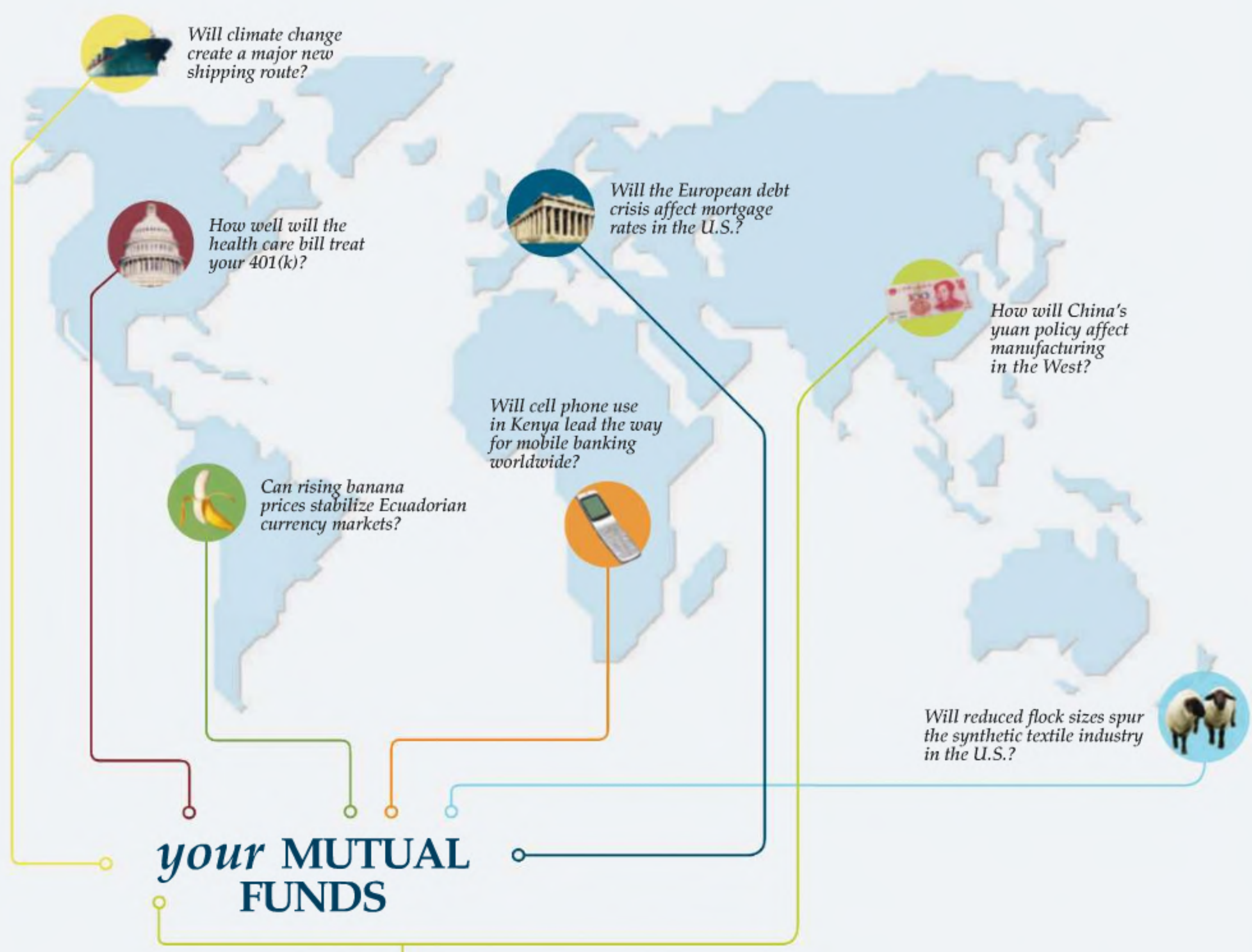
**Accor CEO Gilles Pelisson replaced with Denis Hennequin, formerly of McDonald's** • **YouTube Co-Founder Chad Hurley steps down from top job** • **Lloyds Banking Group António Horta-Osório of Santander named CEO**

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MIKE STOCKER/SUN SENTINEL/POLARIS

# Nothing Messes Up a Mandate Like Governing

▶ The Republican power shift may not last with Tea Partiers trying to disrupt GOP leaders

▶ "John Boehner, for his many virtues, is not Newt Gingrich"

Every election has an afterglow. It rarely lasts. As formidable as the Republican romp in the midterm elections was, the lesson may be that abrupt shifts in power are the new constant. "Let's face it," says Richard Norton Smith, a history professor at George Mason University, the outcome "is schizophrenic." He says voters demand change, then punish lawmakers who made change possible. Voters insist they want representatives who work across the aisle, yet reward the ones who make sure that doesn't happen. "They claim to want to address fundamental issues, including the budget deficit, but don't want to take the costly steps to get us there," says Smith.

Now a newly empowered Republican majority in the House, with a strengthened hand in the Senate, must divine what voters really want, or at least what they will tolerate given the tough budget questions ahead. Their talk, as if they alone know the solution, may be misguided. Even Marco Rubio, a Tea Party-backed Republican who won a U.S. Senate seat from Florida, said on Election Night: "Our nation is headed in the wrong direction, and both parties are to blame."

**One historian calls the victorious Tea Party's political movement "a cause without a rationale"**

Surveys show that many voters pulled the lever against Democrats in part because they are unhappy with government efforts so far to energize the economy and put 14.8 million jobless Americans back to work. Most newly elected members of Congress think the answer is lower

taxes, making it harder for them to trim the $1.4 trillion budget deficit without dramatic spending cuts.

Or consider this: Kentucky's Rand Paul, who trumpeted a "Tea Party tidal wave" in his victory speech, said that "America can rise and surmount these problems if we just get government out of our way." He and others in this ambitious new class of lawmakers want to limit the power of bodies like the Federal Reserve, which may be the only non-gridlocked institution in Washington that can juice the economy.

Beyond such policy contradictions, another reason this Republican moment may prove fleeting is that the likely new House Speaker, John Boehner of Ohio, and his Senate counterpart, Minority Leader Mitch McConnell of Kentucky, face a management challenge. Senator Jim DeMint of South Carolina, who tried to lead the outsiders from the inside, warned fellow Tea Partiers in a Nov. 3 op-ed in *The Wall Street Journal* that "The establishment is much more likely to try to buy off your votes than buy into your limited-government philosophy." He was talking about fellow Republicans.

Tea Party candidates built their victories on a coalition of grassroots enthusiasts, monied interests, and GOP leaders who battled the insurgents before embracing them. Unlike Newt Gingrich's 1994 "revolution," Republicans this time prevailed without either a galvanizing leader or set of ideas. "John Boehner, for his many virtues, is not Newt Gingrich," says Ross Baker, a political scientist at Rutgers University. "Nobody would use visionary to describe him."

If Tea Partiers get their wish and Republicans collar the Fed—a body the newcomers know little about—that could make it harder for the central bank to help the 9.6 percent of Americans who are jobless. The Fed "is the only game in town" in managing economic growth, says Vincent Reinhart, the central bank's former director of monetary affairs and now a fellow at the American Enterprise Institute. The Fed proved that to be so on Nov. 3 when it announced purchases of an additional $600 billion of Treasuries through June (page 12).

In his post-election news conference on Nov. 3, President Barack Obama acknowledged the "shellacking" that his party took and pledged to reboot his relationship with business, which has




been reluctant to hire as long as consumers remain slow to unclasp their pocketbooks and the housing market stays frozen. The President confronts economic challenges more profound than Ronald Reagan or Bill Clinton, who saw their party suffer heavy midterm losses and went on to win second terms with ease. In 1994 the recovery was already well established and unemployment had been falling for more than two years. About the same time as Reagan's midterm losses in 1982, the Fed began easing a tight monetary policy it had maintained to control inflation; by the 1984 election the economy was growing at a rate of more than 7 percent.

A rising tide, history shows, lifts all Presidents, if it rises fast enough. The economy has expanded for five quarters in a row. In 2012 it's projected to grow at a 3 percent rate, and unemployment is estimated to be 8.7 percent, according to the median forecast of economists surveyed by Bloomberg News in October. Not exactly robust, but decent enough to convince voters progress is being made.

Some parts of the economy have bounced back strongly. By the second quarter, corporate profits had rebounded almost to the pre-recession peak reached in 2006. The Standard & Poor's 500-stock index is up more than 48 percent since Obama took office. U.S. companies have amassed almost $1 trillion in cash.

Democrats like to say that a communications failure was at the root of their demise, while Republicans say that is just another measure of Team Obama not understanding rejection of his policies. Put historian Smith more in the former category. He termed the Republican victory "a cause without a rationale" and faulted Obama for failing to provide an effective counterargument. "It is as if they have confused the 24/7 news cycle with the fundamental job of the modern President," he says. "As Harry Truman said, the power of the presidency is the power to persuade."

The White House isn't likely to make that mistake again. The GOP may think it has a mandate, but midterm elections are consistent for at least one thing: They are terrible predictors of future contests. —*Michael Tackett and Mike Dorning*

***The bottom line*** *The lesson of the midterms may be that voters no longer trust incumbents and are willing to keep shifting the balance of power.*

## Quoted Nº1

**"I know the Republicans are feeling very good tonight. I've got a message to all of my colleagues: Winning is not the issue here. It's remembering what we promised, willing to put our political necks on the line."**
—Republican John Kasich, winner of the Ohio governor's race



CLOCKWISE FROM TOP LEFT: STEVE MARCUS/LAS VEGAS SUN/REUTERS; THE NEW YORK TIMES/REDUX; LA TIMES/MCT/PHOTOSHOT; THE PLAIN DEALER/REUTERS



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Elections

# Former Executives Bomb at the Ballot Box

▶ Spending big on your own campaign was a bad idea this year

▶ "Campaigning ... is part show biz, part policy wonk"

Wealthy candidates, many from the business world, spent more than $500 million of their own money running for office this year. They don't have a lot to show for it.

Meg Whitman, the former **eBay** chief executive officer who failed in her bid for California governor, contributed $141.6 million from her personal fortune, the most for a single race in U.S. history. Ex-**Hewlett-Packard** leader Carly Fiorina, the Republican who sought a Senate seat from California, and **World Wrestling Entertainment** co-founder Linda McMahon, a Republican who ran for the Senate from Connecticut, were also among the wealthy, self-financed losers on Nov. 2.

This year's 58 self-funded federal candidates—those seeking seats in the U.S. House and Senate and contributing at least $500,000 to their campaigns—spent a combined $159 million, according to the Center for Responsive Politics. At the local level, self-funded candidates who ran for governor and other state offices spent even more—$344.3 million, says the National Institute on Money in State Politics. (The center and the institute are nonpartisan groups that track political money.)

Of the 58 who bankrolled their own federal candidacies, 30 of them didn't even make it to Election Day, having dropped out or been defeated in primaries. Among the 28 who were still on ballots on Election Day, 11 won. The losers join Mitt Romney, H. Ross Perot, and Steve Forbes among executives who spent big and lost bids for public office. Of the top 20 self-financed federal candidates since 1990, only 5 won.

The lesson, pollsters and political scientists say, is not that money doesn't matter, but that money isn't everything. The biggest hurdle is that Big Business ranked alongside political incumbents in the level of voter scorn this year. According to the media narrative, "corporate greed, lack of regard for working people, large companies are part of the problem," says Franklin D. Gilliam Jr., dean of the school of public affairs at the University of California at Los Angeles. "You can't buy an election, and that's what it seems like they're trying to do," says Jennifer Kaiser, a hospital consultant in Los Angeles who did not vote for Whitman or Fiorina.

Decisions made by former executives, such as laying off workers, were sometimes used against them. Barbara Boxer, the Democratic senator from California, defeated Fiorina in part with ads of former HP employees who had lost their jobs during her tenure. "She shipped our jobs to China," an ex-worker says in one ad. A lack of political experience also left some of these candidates without the instincts needed to respond smartly in the parry and thrust of heated competition. "Campaigning is a difficult job that is part show biz, part policy wonk, and mostly gut instinct," says Lawrence C. Levy, executive director of the National Center for Suburban Studies at Hofstra University.

Whitman, for example, was running even with Jerry Brown until her former housekeeper claimed in late September that the candidate knew she was an illegal immigrant and fired her only after deciding to run for office. Although Whitman denied the allegation, her support fell among Latinos, women, and independents, an Oct. 28 Field Poll showed. "She fired her summarily," says Todd Gitlin, a journalism and sociology professor at Columbia University. "That doesn't play well with people hanging on to jobs by their fingernails."

Still, deep pockets can help. Rick Scott, a hospital executive, won the Florida governor's race after contributing $73.2 million of his money. Having a family fortune also boosted Ron Johnson, a Wisconsin corporate executive and first-time candidate, who spent about $8 million of his own money to defeat three-term Senator Russ Feingold. Rick Snyder, a Republican former chairman of **Gateway**, spent nearly $6 million and won his bid for Michi-

## Quoted Nº2

**"Although the outcome isn't what we all worked so hard for, our voice was heard—will continue to be heard. And we've got a lot of food. We've got the room all night. So, God Bless You. So let's party!"**
—Republican Christine O'Donnell, loser of Senate race in Delaware



### Hey, Big Spender

History shows that a personal fortune rarely translates into success at the ballot box, with New York's third-term mayor, billionaire Michael Bloomberg (founder of Bloomberg LP), among the notable exceptions



| TOP FIVE SELF-FUNDED CANDIDATES | SPENT (MILLIONS) | OUTCOME |
|---|---|---|
| Meg Whitman, *R, California governor, 2010* | $141.6* | Lost |
| Michael Bloomberg, *I, New York City mayor, 2009* | $108.4 | Won |
| Thomas Golisano, *I, New York governor, 2002* | $74.1 | Lost |
| Rick Scott, *R, Florida governor, 2010* | $73.2* | Won |
| H. Ross Perot, *I, President, 1992* | $63.5 | Lost |

| TOP FIVE SPENDERS IN THE 2009-10 ELECTION CYCLE | SPENT (MILLIONS) | $ PER VOTER | OUTCOME |
|---|---|---|---|
| Meg Whitman, *R, California governor* | $141.6* | $46.20 | Lost |
| Rick Scott, *R, Florida governor* | $73.2* | $28.31 | Won |
| Linda McMahon, *R, Connecticut U.S. Senate* | $46.7* | $97.40 | Lost |
| Steve Poizner, *R, California governor (primary)* | $24.4 | $52.83 | Lost |
| Jeff Greene, *D, Florida U.S. Senate (primary)* | $23.8 | $83.99 | Lost |

*ADDITIONAL SPENDING REPORTS PENDING. PER-VOTE SPENDING BASED ON VOTE COUNTS AS OF 3 P.M. ON NOV. 3.
DATA: ASSOCIATED PRESS; BLOOMBERG; NATIONAL INSTITUTE ON MONEY IN STATE POLITICS; CENTER FOR RESPONSIVE POLITICS

Mobile apps suit up for work page 44 ▶



gan governor, in part by calling for elimination of the state's business tax in favor of a flat 6 percent levy. Another exception to the executive-turned-politician curse is Michael Bloomberg, founder of Bloomberg LP (which publishes this magazine), who won his third campaign for New York mayor in 2009, and spent $108.4 million on the race—the biggest self-financier before Whitman.

Can unlimited funds be too much of a good thing? In the Florida governor's contest, 89 percent of likely voters said they had seen Scott's ads, and more than half called them "annoying," according to an Oct. 1 Quinnipiac University survey. Still, Scott won, even if he enters the state record books for being the first to win since 1916 with less than 50 percent of the vote, and for doing so with the smallest margin since 1900.
*—Christopher Palmeri and Peter S. Green, with Simone Baribeau*

***The bottom line*** *The 2010 election losses by self-funded executives proves that money isn't everything.*



**State Elections**

## To the Victor Goes the Redistricting Edge

▶ **Big state-level gains mean GOP dominance in reshaping districts**

▶ **"Republicans won a commanding advantage" in redistricting game**

The fun for Republicans does not end with their Election Day blowout. Beyond impressive gains in Washington, historic victories at the state level—in legislative and governors' races—ensure that the party will dominate the redrawing of congressional districts that begins next year.

After each census, politicians in most states engage in a baldly partisan ritual of adjusting district lines in hopes of sending more of their allies to Washington for elections to come. And as bad a time as they had at the national level, the Democrats suffered equal, if not more devastating, setbacks in state races.

Republicans will have unilateral control of about 190 U.S. House districts as a result of the Nov. 2 election, according to Tim Storey, an analyst with the nonpartisan National Conference of State Legislatures in Denver. "Republicans won a commanding advantage in the redistricting process," he says.

Over the next several years, 15 to 25 seats in the U.S. House of Representatives are more likely to remain Republican or switch from Democratic after redistricting as a result of the party's victories in the states, says Ed Gillespie, chairman of the Republican State Leadership Committee. "We're going to end up protecting a lot as opposed to carving new ones," he predicted in a conference call with reporters.

The GOP will control 25 legislatures, including Ohio, North Carolina, and Minnesota, boosting its power in statehouses by the most since 1928, the National Conference of State Legislatures says. The Republican State Leadership Committee, based in Alexandria, Va., calculates that its side enjoyed a net gain of 19 state legislative bodies in the course of taking away more than 500 state legislative seats from Democrats nationwide. The results "exceeded our expectations," says Gillespie, one of his party's most prominent strategists.

Republicans plan to press their advantage. "By controlling a majority or more of reapportionment states, we can make sure that the Democrats




# Quoted Nº3

**"The bell that just rang isn't the end of the fight, it's the start of the next round.... My story and this night prove that 'difficult' isn't synonymous with 'impossible.'"**
—Democrat Harry Reid, winner of the Senate race in Nevada



don't take from us tomorrow what we fought so hard for today," Mississippi Governor Haley Barbour, who chairs the Republican Governors Assn., said in a news release.

Congressional seats will be reapportioned as a result of the recently completed census. States with shrinking populations will lose seats, and those with growing ones will gain. Eighteen states are projected to be affected, according to Election Data Services, a consulting firm.

In most states, governors play an important role in redistricting, and Republicans had success in these races as well. Democrats lost governors' seats to Republicans in Iowa, Kansas, Michigan, and at least eight other states. In Ohio and Pennsylvania, Republicans took from Democrats the lower house of the legislature as well as the governorship. In Wisconsin, Republicans swept both houses and the governor's chair. Republicans won both houses of the state legislature in Alabama for the first time since the end of the Civil War.

With these Election Day gains also comes more responsibility for dealing with widespread fiscal problems. Deficits are forcing many states to raise taxes, fire public employees, and cut spending on schools. Thirty-nine states project a collective $112 billion of deficits for the 2012 fiscal year, a figure that is likely to swell as the federal stimulus package expires, according to the Center on Budget and Policy Priorities, a Washington research group. *—Paul M. Barrett, Martin Z. Braun, and Tim Jones*

***The bottom line*** *Big Republican gains in state-level races give the GOP a huge advantage over Democrats in redrawing congressional districts.*

FROM TOP: AL MURPHY; STEVE MARCUS/LAS VEGAS SUN/REUTERS; ILLUSTRATION BY YVES SALT


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# Prepare for Change—Again

For only the third time in half a century, control of the U.S. House of Representatives is switching parties. Come January, Republicans will take over the speakership and committee chairs. The open question, of course, is whether



POSITION

## Speaker

**John Boehner**

R-Ohio

BACK STORY

### The Republicans' Working-Class Hero

House Minority Leader John Boehner grew up in a working-class family of Roman Catholic Democrats. He tended bar at a family-owned pub to pull himself up from blue-collar roots to become a millionaire businessman and the most powerful member of a resurgent GOP. During the campaign he urged voters to stop President Barack Obama's "job-killing agenda" by electing Republicans who will cut federal spending, extend tax cuts, repeal the Democrats' health-care law, and create a more business-friendly environment. Now, his challenge will be to help his party deliver while keeping incoming Tea Party members in sync with the Republican Establishment's agenda.

**Boehner needs some legislative victories to avoid Obama branding the Republicans as obstructionists in the 2012 general election.**

**6**

**Republican gains (at least) in the Senate, not enough to take control from the Democrats**

## Ways and Means

**Dave Camp**

R-Mich.

### The Playmaker On Taxes

Dave Camp is a pragmatic lawmaker who played an influential role in shaping the 1996 Welfare Reform Act, signed by President Bill Clinton. As Ways and Means chairman, Camp will be at the center of the debate over whether to extend $5 trillion worth of Bush-era tax cuts that expire on Dec. 31, if the issue doesn't get decided in the lame-duck congressional session. Camp favors extending the cuts permanently to all Americans, while President Obama favors letting taxes rise for high-earners. Other clashes could occur over estate and corporate taxes. The White House and Republicans could find common ground over free-trade deals with South Korea, Panama, and Colombia.

**Camp will need to balance the Republicans' push to extend the Bush tax cuts and protect business tax breaks with the GOP's deficit-reduction goals.**

## Appropriations

**Jerry Lewis** R-Calif.
Or **Hal Rogers** R-Ky.

### Delivering $100 Billion In Budget Cuts

House Republicans may stage an internal fight over the Appropriations Committee chair. Jerry Lewis is considered the favorite. He once ran the panel, proving himself adept at delivering defense jobs and contracts to California, and now wants the gavel back. He'll need a waiver from his party's six-year limit on service as the top member on a committee. In the wings is Hal Rogers of Kentucky, also known for steering funds for pet projects to his district. Both could be pushed aside as dozens of incoming freshmen, determined to attack federal spending, arrive in Washington. Whoever gets the job will be under pressure to deliver on Republican leaders' pledge to cut $100 billion as early as January. They say the cuts will come from $477 billion in non-defense domestic programs, excluding Social Security and Medicare. Cutting popular programs such as Pell college grants and ending earmarks will be tough.

**The incoming Appropriations Committee chairman will be under pressure to deliver $100 billion in spending cuts.**

## Energy and Commerce

**Fred Upton**

R-Mich.

### A Bull's-Eye on Obamacare

Fred Upton of Michigan has the inside track to head this committee, which has big say over energy, the Internet, and health-care policy. His fund-raising and campaigning for fellow Republicans won points with Boehner and other senior Republicans and give him an edge over fellow Republicans Joe Barton of Texas and Cliff Stearns of Florida. If Upton lands the job, he's expected to include nuclear power in any legislation promoting clean energy. This committee will also be a major battlefield in the GOP's quest to repeal the health-care overhaul signed into law last spring. House and Senate Republicans already have written at least 30 bills that would roll back pieces of the act.

**Upton will lead the charge in the Republican search for ways to roll back health-care reform and promote nuclear power.**

**$4bn**

**Estimated spending by all candidates and outside groups, the most in a non-Presidential election year**

BLOOMBERG (1); GETTY IMAGES (5); AP PHOTO (2); LANDOV (1)



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# 60

**Republican gains (at least) in the House, more than the GOP's 52-seat gain in 1994 and the biggest sweep of House races since 1948**

they can work with a Democratic Senate and White House. With President Obama armed with his veto pen, there's sure to be plenty of friction. Below, a guide to the likely House leadership and the key issues.



## Financial Services

**Spencer Bachus**

R-Ala.

### Putting a Leash on the Regulators

If Spencer Bachus ends up running the House Financial Services Committee, he and other Republicans will try to rein in regulators now writing new rules for the financial services industry. Bachus also hopes to phase out government support for mortgage-finance companies **Fannie Mae** and **Freddie Mac**. House Republicans want to restrict the independence of the new Consumer Financial Protection Bureau and revisit the regulation of derivatives spelled out in the Dodd-Frank financial reform law. Bachus, who says he wants to work with Democrats, is likely to be challenged for the gavel by 10-termer Ed Royce of California.

**Bachus wants to keep financial regulators in check and phase out government support for Fannie and Freddie.**

**9**

**Net number of governorships Republicans took from Democrats**

## Oversight

**Darrell Issa**

R-Calif.

### The Man with the Magnifying Glass

Darrell Issa, poised to be chairman of the Oversight and Government Reform Committee, has called Obama "one of the most corrupt Presidents in modern times." Issa plans to investigate more than $800 billion of stimulus spending and hiring practices at the Defense Dept., which he claims has illegally recruited private contractors into government service. Issa, the son of a Lebanese immigrant and who made a fortune in the car alarm business, has been, ahem, sounding the alarm over what he calls the Federal Reserve's backdoor bailouts to **American International Group** creditors during the financial crisis. He says he plans to increase oversight of the central bank, because it controls "trillions of dollars of guarantees" unsupervised by Congress. Other possible targets include Fannie Mae and Freddie Mac and climate-change scientists.

**Issa is a tenacious investigator who will keep the White House and the Fed on the defensive.**

## Budget

**Paul Ryan**

R-Wis.

### Congressman Calculator

One of the few Republicans offering concrete proposals for cutting spending has been Paul Ryan, who is expected to take the helm of the Budget Committee. His "Roadmap for America's Future" would establish a voucher system for Medicare, scrap tax exemptions for employer-based health benefits in favor of individual tax credits, and let workers under the age of 55 steer a portion of their Social Security taxes into private accounts. The plan elevated Ryan, 40, from an up-and-comer to a full-fledged political star. It also became a punching bag for Democrats, and some Republicans who distanced themselves from Ryan's proposals, concerned they would be viewed as too extreme by independent voters. Ryan could play a key role if President Obama's deficit commission recommends long-term changes in entitlement programs.

**Ryan is a respected fiscal conservative, but his ideas may be too radical for rank-and-file Republicans.**

**13**

**Number of "Mama Grizzly" candidates who won with Sarah Palin's endorsement, out of 28 backed (two races are undecided)**

## Armed Services

**Howard McKeon**

R-Calif.

### Friend of Contractors, Tough on China

If Howard "Buck" McKeon gets the nod as chairman of the Armed Services Committee as expected, contractors such as **Lockheed Martin**, **Northrop Grumman**, and **Raytheon** may get a boost for their weapons programs. Victorious House Republicans likely will spare the Pentagon from budget cuts and pursue a more muscular approach toward threats from China. McKeon, whose district is home to defense plants and Edwards Air Force Base, is co-chairman of a caucus promoting the use of military drones.

The new House Republican majority will probably also explore ways to raise missile defense spending and control military health-care costs.

**McKeon will be an advocate of missile defense and will try to shield the Pentagon from painful budget cuts.**



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# Charlie Rose talks to

# Roger Altman, Glenn Hubbard, Glenn Hutchins, and Meredith Whitney




An Election Night roundtable drawn from business and academia on debt, tax cuts, and the prospect of more regulatory uncertainty



**Now that voters have had their say, what's going to be done about the Bush tax cuts? The President has said he's in favor of extending them for the middle class, but how do you see this playing out?**

**Columbia University economist R. Glenn Hubbard:** I think the right answer for the economy is to extend all the Bush tax cuts until we're ready to have a serious national conversation about two subjects. One is the size of government and whether we can afford any tax cuts, and second is tax reform. I see no argument for punishing high-income taxpayers in the middle of a recovery from a recession. A two-year extension is exactly the right answer, and I think that is ultimately what the President will decide.

**What do you think the President—and Congress—will do on this issue?**

**Silver Lake Partners' Glenn Hutchins:** The tax cuts are part of a much bigger issue. The very biggest issue facing us—and I hear this from foreign leaders, both business and political, when I travel—is the U.S. fiscal situation in general. One thing government can do to stimulate investment and create job growth is to get its own house in order. It's the only thing it can and should do. Tax policy is a key part of that, but we need to bring spending under [control] and have a long-term path to a stable future that businesspeople can build on top of. It's pretty much the only important thing.

**Much is said about uncertainty. Uncertainty about tax policy, about regulation, about trade. How will certainty be established?**

**Hutchins:** The biggest issue of uncertainty for businesspeople is their revenues, what economists call aggregate demand. There is a tremendous amount of uncertainty about getting back to the level of economic performance we had before the crisis.

**Put the U.S. in the context of other countries in terms of its tax policy. Where are we, and where might we go?**

**Evercore Partners' Roger Altman:** If you look at the so-called richer countries, in terms of the federal tax burden we rank relatively low. That comes about because we don't have a value-added tax. Most OECD countries do. Our income tax rates may strike some people as high, but by international standards they're not that high. But the corporate tax rate in the U.S. actually is quite high.

**And should be reduced?**

**Altman:** Eventually. We do need a lower corporate tax rate, but it really needs to be part of an overall approach to tax reform on the one hand and deficit reduction on the other. Those two are going to have to be part of the same package in the end because there's going to have to be some additional revenue before we can ultimately solve our deficit problem. That's where tax reform comes in.

**I think Glenn [Hubbard] is anxious to jump in.**

**Hubbard:** That's right on one level. But we do rely more on income and corporate taxes than many of our peer countries. Indeed, countries that tend to have larger governments rely very heavily on consumption taxes because it's the most efficient way to fund a larger government. That's a lesson for the U.S. We could cut our corporate taxes down to being in the high twenties from the present 35 percent with minimal revenue loss. It's something we should do.

**I want to come back to the topic of uncertainty. Meredith, you talk to a lot of CEOs. What are they looking for over the next two years? They're sitting on a lot of cash waiting for something. Is it demand or is it certainty?**

**Meredith Whitney of Meredith Whitney Advisory Group:** Resoundingly, the one thing they're looking for is leadership. And antagonism is not leadership. If you had leadership positions on policies like taxes, like fiscal issues, like corporate governance, like reg reform, that would be certainty you could live with and plan on. But if the rules are changing constantly, it's very difficult to budget. And that's why so many corporations are sitting on so much cash. They don't know what their needs are going to be in the future.

That then creates, at least for the banks, an environment where you're hoarding cash, you're not lending. Leadership could come in and rectify a lot of that. That's what business is really looking for. The Republicans are in a tricky situation. If they slow things down and the unemployment rate doesn't move, then they'll get kicked out of office. Someone's got to go cross-aisle and take the leadership position. Ⓑ



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# Technology

# For Bravo, One Screen Isn't Enough

▶ **Networks encourage TV viewers to simultaneously go online**

▶ **"Our users tend to adapt before us. We're just tapping into it"**

One night this past June, 2.6 million people tuned into the cable network **Bravo** to watch the final episode of the third season of the reality series *Real Housewives of New York City*. While watching housewife LuAnn belt out her cringe-worthy single *Money Can't Buy You Class*, some viewers also fired up computers, jumped onto Bravo's website, and used an interactive feature called Talk Bubble to commune with fellow fans. They used the site's tools to share jokes on **Twitter**, update their **Facebook** status, and follow a "Tweet Heat" graphic that charted viewers' collective sentiment toward the housewives. Verdict: Stop singing!

By the end of the night, some 13,000 viewers had used Talk Bubble. That may not sound like a significant number, but in this golden age of attention deficit disorder, dual-screen viewers—that is, people who simultaneously watch TV and a second device such as a laptop, smartphone, or tablet—are a coveted demographic. A recent **Nielsen** study found that consumers now spend on average 3 hours and 41 minutes per month watching TV and browsing the Internet simultaneously and roughly three out of five TV viewers engage in two-screen consumption. In response, networks have rolled out Web features and mobile applications designed to capture tandem media consumers. "It's what people are doing anyway," says Lisa Hsia, the head of Bravo's digital operations. "Our users tend to adapt before us. We're just tapping into it."

Hsia says Bravo's encouragement of companion-viewing has, in short order, boosted digital ad sales. She declines to share specific numbers, but a Bravo spokesperson says the network's digital revenue during the first three quarters of 2010 has increased 53 percent from the same time period last year,




PHOTOGRAPH ILLUSTRATION BY JENNIFER DANIEL; REAL HOUSEWIVES OF NYC: HEIDI GUTMAN/BRAVO



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# Technology

thanks in large part to ad deals on the Talk Bubble page. "Digital operations are increasingly becoming a revenue driver in the Bravo business," says Hsia. "I've been here for five years, and I've never seen that before."

Bravo was one of the first to start experimenting with ways to monetize the two-screeners. In the spring of 2009, during the finale of the second season of *Real Housewives of New York City*, Bravo hosted its first "virtual viewing party" on its website. It featured some of the same social media tools as its successor, Talk Bubble, and provided exclusive online access to two of the series' stars. In essence, fans could watch the series while discussing it not only with friends across the country but also with the C-list celebrities themselves. In March 2010, Bravo formalized the experiment with Talk Bubble and eventually expanded it to several other Bravo shows, including *Top Chef* and its spin-off *Just Desserts*.

Cable channels such as Bravo covet two-screen consumers because they can essentially sell their attention to advertisers twice—once on TV and again online. Drive-in chain **Sonic** and pretzel maker **Snyder's of Hanover** were early sponsors. During a recent episode of *Just Desserts*, Bravo served up multiple scoops of **Breyers** ice cream ads, including traditional TV commercials, product placements within the show, and a display ad on Talk Bubble.

**8.5**

**MILLION DOLLARS**

**The amount Google will donate to privacy-focused groups to settle a lawsuit that accused the search giant's Google Buzz product of divulging users' private information**

The rise of the two-screen consumer, at least in theory, is also helping to counter the threat of DVRs and watch-when-you-want online viewing sites such as **Hulu** and **Netflix**. Dual-screen viewers like to interact with fellow fans in real time, making them less likely to record a televised event on DVR. They tend to be a vocal bunch, and their bouts of mid-show Twitter sniping can motivate some fellow social media users to check out what is inspiring the hubbub. (Sample Talk Bubble tweet: "Oh my god, now Yigit is on the losing team!!! if he gets sent home I'm going to throw myself off a bridge.") Hsia says that Bravo's internal research found that during the final three episodes of the third season of *Real Housewives of New York City*, Talk Bubble caused an average of 250,000 additional viewers per episode to tune in. "Unquestionably, it does drive higher ratings," says Hsia. "When you talk about strategy for 2011 moving forward, it's no longer like the TV alone is driving it."

Networks are following suit. In September, **CBS** introduced an iPad app to use while watching NFL football. **ABC** unveiled a first-of-its kind iPad app for the network's new prime-time series *My Generation* that used the tablet's microphone to synchronize interactive features—such as polls, quizzes, and character bios—with specific moments of the show. (The app wasn't quite innovative enough to save the series, which was canceled after two episodes.) Like Bravo, many networks corral tweets and celebrities onto a single Web page or app. **The CW** has an expansive "Watch and Tweet" section on its website where, say, *Gossip Girl* fans can critique episodes and chat with series creator Josh Schwartz. **MTV Networks** has incorporated these kinds of opportunities into everything from its *Video Music Awards* to President Obama's speeches.

A number of startup tech companies, including **Miso**, **Get Glue**, and **Philo** are jockeying to become central venues for the new digital activities accompanying TV programs. Some are competing with the networks' own sites but hope eventually to collaborate with them. These companies lure viewers in part by awarding them virtual prizes for "checking in" to their favorite TV shows through websites or smartphone apps. "The networks are going to try and do this themselves," says Miso Chief Executive Officer Somrat Niyogi. "But ultimately, people will want one place to go to while they watch TV." —*Felix Gillette*

***The bottom line*** *Networks are trying to profit from dual-screen viewers, who engage with shows online and on their smartphones and tablets.*

Software

## Mobile Apps Suit Up For the Office



▶ Companies are creating in-house app stores for their employees

▶ "It's ... a model we want to deliver to companies around the world"

**IBM** engineer William Bodin needed a way to communicate securely with a team of developers halfway around the world. So he turned to an application, created by colleagues, that could be downloaded to his smartphone. It let him collaborate with teammates in Vietnam while he was sitting rink-side at his son's hockey practice.

Bodin, IBM's chief technology officer for mobile computing, has since created an online storefront that gives employees across the company access to software that can help them get their work done. The store, called Whirlwind, has been used by more than 11,000 IBMers in the six weeks it's been open for business. There are apps for everything from scheduling conference rooms to approving purchasing orders to accessing IBM's internal social network. Previously, employees couldn't do most of this unless they

CLOCKWISE FROM BOTTOM RIGHT: PHOTOGRAPH BY BRAD SWONETZ FOR BLOOMBERG BUSINESSWEEK; ILLUSTRATION BY AL MURPHY; ALAN BETSON/IRISH TIMES



worldmags

The curious case of David Drumm
page 53 ▶



were logged onto a desktop PC or a network-linked laptop. Now they can do it all from a smartphone or other mobile device. Says Bodin: "People love the concept."

As companies become comfortable letting employees conduct business by smartphone, they are increasingly turning to enterprise applications that can run on mobile devices. An Oct. 14 report from Forrester Research predicts that by 2015 about half of all devices on U.S. corporate networks will be mobile. The shift away from PCs will power an explosion in the North American market for office apps, which is set to climb to $6.85 billion by 2015, from $1.76 billion in 2010, according to forecasts from Frost & Sullivan, a research and consulting firm.

**Google** also has an in-house app store. Employees can download software to do their expenses or book a conference room on the run. "I would not call them rocket science apps, but they're very practical, pragmatic apps that Googlers need throughout the day," says Dave Girourard, president of Google's enterprise group. The company also uses the store to internally test apps built to run on its Android operating system before they're released to the public. "It's actually a model we want to deliver to companies around the world so that they can have their own store for Android apps," says Girourard.

**Apple** has made it easier to build iPhone and iPad apps for use in the workplace. For a fee of $299 a year, its iOS enterprise developer program gives programmers access to resources that will help them develop proprietary, in-house applications.

Useful as office apps may be, they also can create headaches for information technology departments. While BlackBerrys were once standard issue at many companies, IT staff must now support a broader range of handsets–and operating systems. "There's not a single [mobile phone] operator that can handle all the devices," says Paul Nerger, vice-president for marketing at Ondeego, a Berkeley (Calif.)-based firm that helps companies build and manage in-house app stores. "What makes a company think they can do it?" Ondeego markets a product called AppCentral that lets companies distribute apps to employees and another product called AppGuard that allows the IT manager to secure the application. If an employee leaves the company, the corporate apps can be wiped off a device, one by one.

To keep things simple, IBM only allows BlackBerry apps on Whirlwind for now, though its engineers are writing apps for iPhone and Android devices. Those will probably wind up in the store once the company approves the use of other devices to connect to its corporate networks. The company also is letting employees write their own apps and upload them to the store. The process is so easy, Bodin says, that he was able to do just that while killing some time in the waiting room at his doctor's office last month.

*—Rachael King*

***The bottom line*** *IBM, Google, and others are creating internal storefronts loaded with apps that ease tasks such as expense reporting.*

Data

# Factual Wants to Put The Web in Order

▶ The man behind Google's AdSense is selling organized data

▶ "This is a very tough problem to solve well"

Gil Elbaz recalls meeting with a prominent venture capitalist during the late 1990s to discuss his first startup, Applied Semantics. When Elbaz said the company could someday generate $100 billion in sales, the potential investor was dismissive. "He about threw me out of the room," says Elbaz. In 2003, **Google** bought Applied Semantics for $102 million. It became the foundation for the search giant's



Elbaz sold his first company to Google for $102 million



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# Technology

## Quoted

**"What Justice Scalia wants to know is what James Madison thought of video games."**
—Supreme Court Justice Samuel Alito, ribbing his colleague Antonin Scalia during a hearing on a California law regulating violent video games. Scalia is known for basing his decisions on the intent of the country's Founding Fathers



AdSense, which places relevant text ads on Web pages and in 2009 accounted for 30 percent of the company's $24 billion in revenue.

Elbaz commands more respect these days. Earlier this year a who's who of Silicon Valley power players invested $15 million in **Factual**, the company Elbaz formed after leaving Google in 2007. Factual, which opened its service to the public in October, is organizing bits of useful data strewn across the Internet. Every day, names, numbers, dates, addresses, and other pieces of what Elbaz calls "unstructured data" are added to the Web. Since it doesn't follow any standard formatting, this data is useless to most computers. Machines can't readily grasp concepts such as "middle school" or "junior high," let alone distinguish how they're related.

Factual aims to automatically find and sort this data, amassing a comprehensive collection of datasets that businesses will pay to incorporate into their websites and mobile applications. Inside Factual's Santa Monica (Calif.) office, a few miles from the old Applied Semantics facility that became Google's Southern California outpost, a couple dozen engineers train computers using principles from an academic field called ontology, which is the science of categorizing words and phrases. The algorithms are smart enough to know that junior high refers to 7th and 8th grade while middle school includes 6th grade as well. They're also smart enough to update the database when online information changes and verify its accuracy. "This is a very tough problem to solve well, even for Gil," says Elon Musk, the PayPal co-founder who went on to create Tesla Motors. "But it would be unwise to bet against him."

Factual is building databases on health, entertainment, and other topics, but for now its primary focus is on basic information about businesses and geographic points of interest. Individuals and small developers can use the datasets for free, but larger companies must pay if they want to integrate Factual's information into their own products. On Nov. 4, **Facebook** said it started using Factual's service to populate Facebook Places–a feature for its smartphone app that lets users broadcast their location to friends–with the names and addresses of points of interest in the U.K. and Japan. San Francisco startup **Booyah** plugs Factual's data about local businesses into MyTown, a mobile game that involves players visiting real-world bars, restaurants, and other hot spots. Navigating Cancer, a website that helps recently diagnosed cancer patients, displays a Factual-powered list of oncologists, including details on what type of insurance they accept and areas of specialty.

Factual has yet to turn a profit. The company charges businesses that use its data 50¢ for every thousand data requests. On average, such customers request about a million pieces of data a month, totaling $500. Some customers, including Booyah, get discounts for helping to keep Factual's information fresh by, say, verifying whether a business is still open.

The key to expanding the company is persuading software makers to farm out the work of data management, says Eva Ho, Factual's vice-president for marketing. "Their core competency isn't around getting data, organizing data, and keeping it fresh," she says. "Their core competency is around building a killer application. They should outsource the whole data management service to somebody like us to deal with the heavy lifting."

**50¢**

**The amount Factual charges for every 1,000 data requests**

The area of data-as-a-service gained prominence in July, when Google bought **Metaweb**, a rival to Factual, but one that relies more on human editors to create and update its trove of data. Recently, executives at other Internet giants, including **Yahoo!**, have expressed interest in building or acquiring data processing tools of their own. While Elbaz won't rule out a sale, he says for now he's focused on amassing data. "Would it be fun to get an acquisition offer from [Google] again?" Elbaz asks. "It would be flattering."
—*Douglas MacMillan*

***The bottom line*** *Factual organizes the Web's messiest data and sells it to corporate customers such as Facebook and Booyah.*

Smartphones

## An Extra Hour of Sleep For iPhone Snoozers



► **A glitch causes some Apple users to miss their wake-up call**

► **"We suggest customers set non-repeating alarms for now"**

Duncan Madden, a copywriter in London, says his iPhone cost him £80 ($129) last week. Thanks to a software glitch, his phone–which he also uses as an alarm clock–roused him from bed an hour later than he set it for on Nov. 1 and 2. "It's made me late for work two days in a row," says Madden, 34. "I'm freelance, and I charge an hourly rate, so it's obviously cost me a reasonable amount of money."

Y2K this is not. There are no worries that planes will fall from the sky. Yet when Europeans turned their clocks back during the wee hours of Nov. 1 in accordance with the end of Daylight Savings Time, iPhones hiccuped. The phone's primary clock, which is synced with a server somewhere in the cloud, recorded the time change just fine. So-called recurrent alarms, those set by

FROM LEFT: J. SCOTT APPLEWHITE/POOL/BLOOMBERG; ILLUSTRATION BY OLIVER MUNDAY



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# Innovator

# Paul Savage



The CEO of Nextek Power Systems thinks the U.S. would waste less energy if it switched to direct current. He's enlisted corporate partners to prove it

In the late 1890s, Westinghouse won its bitter "War of Currents" against Thomas Edison. That victory set the U.S. on a course to build a nationwide electrical grid based on alternating current instead of direct current. Paul Savage, the chief executive officer of Nextek Power Systems, wants a rematch.

AC power initially won out because it could more cheaply and efficiently send energy across long distances. But many modern devices, including LED lighting and semiconductor-based electronics like computers, require DC energy. Today, each device does its own AC-to-DC conversion after drawing power from an outlet. Each conversion wastes some electricity.

Savage, 48, says if all the electricity coming into a building were converted to DC at a single point, it could reduce waste by as much as 40 percent. DC power is also much safer than AC–that was Edison's main reason for favoring it–meaning there'd be no charge strong enough to "shock, burn, or startle," says Savage.

In partnership with Armstrong Ceiling Systems, Johnson Controls, and other companies, Savage is demonstrating his vision in 31 locations around the world, including a Ford factory in Detroit. In the pilots, the AC energy coming from the grid is converted to DC by one of Nextek's $1,550 power modules, which resembles a supersized power strip. The partner companies develop the equipment that delivers the DC power to devices throughout the home or business. Savage says he's planning to retrofit several homes in Detroit to run on DC as part of a green energy project run by a local nonprofit. Because DC is safe, some of the demonstration projects feature ceiling tiles with energy constantly coursing through them as if they were wires. They're safe to touch, so lights, ceiling fans, speakers, and other power-hungry items can simply be clipped into place.

Savage estimates that if DC systems take hold, they could cut the amount of energy needed nationally by 8.3 percent. Brian Fortenbery, program manager at the Electric Power Research Institute, considers Savage one of the leaders of the DC movement. "There's a pretty sizable push [for DC] from vendors" who sell power supplies, he adds. American Power Conversion, which makes AC power supplies, counters that improvements in AC technology can raise efficiency without having to invest in new DC equipment.

Savage, who holds a degree in philosophy from Haverford College, spent 15 years in finance, including time at Lehman Brothers, before turning to energy. He was so convinced that DC is better than AC that in 2003 he invested $2 million of his own in Nextek and became its CEO. He says the company may generate $2.4 million next year selling its power modules and smaller converters. "We're in a space that's undergoing dramatic change," Savage says. "There's a huge battle going on for control of the buildings." —*Jeff Green*

**Background** ▶ **Spent 15 years in finance after graduating from Haverford**

**Gamble** ▶ **Invested $2 million of his own money in Nextek**

**Vision** ▶ **Safer, more energy-efficient buildings running on DC power**

## Technology

users to sound at the same time on given days, did not. Those who relied on their phones to wake them at, say, 6:45 every weekday ended up snoozing until 7:45.

Disgruntled dozers responded by–what else?–complaining on blogs, message forums, and social media sites such as **Twitter**. "**Apple**'s new iPhone 5 will be able to do payments," wrote one Twitter user, referencing a rumor about the company's next-generation smartphone. "Seeing as they can't do alarm clocks, this worries me."

The software bug has its roots in the U.S. Congress. In 2005 legislators amended the Uniform Time Act to extend Daylight Savings Time, starting in 2007. The change, intended to prolong the number of daylight hours and thus conserve energy, means Americans move their clocks back a week later than Europeans do. The recurrent alarm feature in the latest iPhone software didn't account for the discrepancy.

After Nov. 7, when the U.S. ends its prolonged Daylight Savings Time, the clocks of the DST-observing world will be in sync again, and the problem should be moot. Until March, that is, when DST begins again. Natalie Harrison, an Apple spokeswoman, says the company is aware of the issue. The problem first popped up in Australia and New Zealand, which change their clocks weeks ahead of Europe. (It's spring there, and clocks are moving in the other direction, so iPhone users woke up an hour early, not late.) The company says it will deliver a fix along with a scheduled software update later this month. In the meantime, "We suggest customers set non-repeating alarms for now," says Harrison.



**Those who relied on iPhones to wake them at 6:45 slept until 7:45**

Or not. Simon Johnson, a 42-year-old Web interface designer who works in the same office as Madden, was also affected by the iPhone glitch. "To tell you the truth, it was rather good to get to work late," he says. "The Tube was empty." —*Adam Satariano, with Diana ben-Aaron*

***The bottom line*** *A software glitch related to Daylight Savings Time caused some iPhone owners in Europe to oversleep.*

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# Markets&Finance

# IBM Can't Get Enough Of Its Own Stock




ILLUSTRATION BY TOPOS GRAPHIC; CORBIS

▶ **The company is spending billions on buybacks**

▶ **"This is another way for them to make me money"**

**IBM** is one of the few big technology companies that has thrived in the economic downturn—and whose stock has surpassed its 2000 tech bubble high. It has done so by jettisoning its low-margin PC business and moving aggressively into services, software, and fast-growing emerging markets. It is the world's biggest computer services provider.

Yet for all its success, perhaps the ripest investment opportunity IBM sees is its own stock. The Armonk (N.Y.)-based company announced on Oct. 26 that it plans to buy back an additional $10 billion of its shares—and has said it plans to spend about $50 billion on buybacks in the next five years. Since taking over as chief executive officer in 2002, Samuel J. Palmisano has spent more than $68 billion on buybacks, about 38 percent of IBM's current market value. Over that time, only **ExxonMobil** and **Microsoft** have bought more of their own stock. IBM has 1.24 billion shares outstanding, down from 1.72 billion at the beginning of 2003.

Uncertain where to invest and when demand for their products will return, plenty of companies are sitting on cash these days. Their options, besides keeping it in a low-interest account, are to plow it back into the business, disperse it to shareholders in the form of dividends, or buy back stock. What's best for shareholders varies depending on the situation. Increasingly, many companies are deciding to snap up shares. In the second quarter of this year, members of the Standard & Poor's 500-stock index bought $77.65 billion of their own shares, up from $24.2 billion in the same quarter last year, though still below the high of $171.95 billion in the third quarter of 2007, according to Howard Silverblatt, senior index analyst at S&P.

Most buybacks are done to offset the issuing of shares via stock options and takeovers, Silverblatt says. Others are meant to aid shareholders by reducing the number of shares outstanding: Remaining shares may be more valuable because they represent a greater claim on the company's earnings. Also, buybacks can help support the share price if the company steps in when shares fall. "If I own the stock and management has a bunch of cash, this is another way for them to make me money," says Daniel Niles, senior portfolio manager at asset management firm Alpha-One Capital Partners.

One objection to buybacks is that companies may overpay, with cash that might be deployed more strategically. From 1986 through 2002, **General Motors** spent $20 billion on buybacks with money that should have gone to shoring up its finances, says William Lazonick, director of the Center for Industrial Competitiveness at the University of Massachusetts Lowell. In the past decade, Microsoft spent more than $103 billion on buybacks; its stock trades at about half its 2000 high. "A lot of companies are just stupid about buybacks," says Niles. "There should only be one reason you buy back shares: You think they're going up."

At $143.84 on Nov. 2, IBM stock was up nearly 10 percent for the year to an all-time high. Still, David Trainer of New Constructs, a Brentwood (Tenn.) investment research firm, thinks it is undervalued. IBM has steadily raised profits to more than $10 a share, from $3.07 a share in 2002. It has said it aims for operating earnings of $20 a share

## Markets&Finance

by 2015. Yet the stock is "trading as if the company's profits will stay the same forever," says Trainer, who bases his analysis on IBM's book value and cost of capital. "Buying back stock is management's way of signaling to shareholders that the stock is cheap." Mike Fay, an IBM spokesman, declined to comment.

Some would like to see IBM use the buyback money on dividends. "The profit is the shareholders' money," says Eddy Elfenbein, who runs the blog CrossingWallStreet.com. IBM's 1.81 percent dividend yield trails the S&P 500 average of 1.92 percent. Microsoft yields 2.34 percent; **Intel**, 3.10 percent. "With yields at historic lows and CDs paying nothing," says Joshua Scheinker, a senior vice-president with Janney Montgomery Scott in Baltimore, "everyone wants to see an income stream." Scheinker notes that dividends are taxable–and that the levy may rise if Congress does not extend the Bush tax cuts.

IBM has been careful with its cash. While it has made more than $20 billion in acquisitions since 2002, it has avoided costly bidding wars for trophy companies. Last year it dropped out of the race for **Sun Microsystems**, which **Oracle** bought for $7.4 billion. Says Silverblatt: "A company like IBM has enough money in aggregate to give shareholders some of everything: buybacks, dividends, deals." —*Roben Farzad*

***The bottom line*** *By committing billions of dollars to its own shares, IBM is saying its stock is undervalued, despite being near a record high.*

Global Equities

# Asia Trounces the World In IPOs

▸ **The U.S. share sinks to 11 percent, an all-time low**

▸ **"An environment ripe for raising capital and ripe for investing"**



Initial public offerings in Asia have reached record levels as companies flood the market with equity, reducing the global share of U.S. IPOs to an all-time low. And Asia's total is set to climb as **Jiangsu Rongsheng Heavy Industry Group** of China, **Petronas Chemicals Group** of Malaysia, and Australian coal train operator **QR National** prepare to sell more than $10 billion of shares as soon as this month, adding to the $134 billion raised in Asia in 2010 as of Oct. 25, data compiled by Bloomberg show.

The world's fastest economic growth and record low bond yields will likely boost demand for Asian IPOs as American companies recover from the longest recession since the Great Depression, according to Deltec Asset Management. Asia's share of initial offerings has increased to 66 percent from 12 percent in 1999. Chinese IPOs led the increase, attracting $76 billion this year. The amount raised by U.S. IPOs has declined 75 percent in the same span and now accounts for 11 percent of money raised globally, according to data compiled by Bloomberg. **Agricultural Bank of China** sold $22.1 billion of shares in Shanghai and Hong Kong last quarter in the world's biggest IPO on record. Six other Chinese offerings have already raised $1 billion this year. In the U.S. in 2010, no company has raised more than $700 million, and at least 54 companies have postponed or withdrawn IPOs.

IPOs in India are on pace to eclipse the country's all-time high of $8.2 billion in 2007, led by **Coal India**'s record sale in October. The government raised $3.4 billion selling a 10 percent stake in the company after investors bid for more than 15 times the shares available. Coal India was the first of eight sales the government plans by March, Disinvestment Secretary Sumit Bose said on Oct. 19.

Asia "is an environment ripe for raising capital and ripe for investing," says Joseph G. Carson, a New York-based economist who helps oversee AllianceBernstein's $1.2 billion Global Thematic Growth Fund. "It's based on expectations of strong growth." **SKS Microfinance**, the Hyderabad (India)-based lender backed by billionaire George Soros that raised $353 million in an IPO in August, may increase reve-

**Drawing Board**



*News item: Companies that received bailout money now giving generously to candidates who opposed bailout ...*

FROM LEFT: ILLUSTRATION BY NICK ANDERSON/HOUSTON CHRONICLE/POST WRITERS GROUP; ADEEL HALIM/BLOOMBERG; ALAN BETSON/THE IRISH TIMES



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India's SKS Microfinance, which lends to the poor, went public in August

nue 52 percent next year. That's almost four times the average growth rate for the 30 companies in the Sensitive Index, the benchmark gauge for Indian equity, and about nine times faster than the average 6 percent increase for U.S. companies.

People who invest in new Asian issues have seen impressive gains so far this year. The newly public Asian companies climbed 36 percent on average as of Oct. 25, data compiled by Bloomberg show. Companies from China and India account for 6 of the 10 best-performing IPOs on U.S. exchanges this year. **MakeMyTrip**, India's largest online travel company, has increased 173 percent, while **JinkoSolar Holding**, a maker of silicon wafers in China's Jiangxi province, gained 155 percent. The Standard & Poor's 500-stock index and the MSCI Asia-Pacific Index have both advanced less than 7 percent this year.

"What the market needs and wants is a lot more IPOs coming out of China," says Jeffrey A. Urbina, who oversees emerging-market strategy at Chicago-based William Blair. "That's where the growth is."

*—Michael Tsang and Lee Spears*

***The bottom line*** *Companies in China, India, and other fast-growing Asian nations are completing IPOs as investors clamor for their shares.*

Irish Financial Crisis

## The Curious Case of David Drumm

- A former CEO of failed Anglo Irish Bank files for bankruptcy in Boston
- There are "Drumm sightings," says a neighbor on Cape Cod

When David K. Drumm filed for bankruptcy in Massachusetts in mid-October, he listed his home as 73 Old Colony Rd. in Wellesley, Mass. That's a half-hour drive west of Boston and almost 3,000 miles from his native Dublin, where Irish fraud police are investigating alleged irregularities at **Anglo Irish Bank**, which he used to run.

There was no answer at the Wellesley address on a Saturday evening in October. Also empty was the waterfront home in Chatham on Cape Cod in Massachusetts, which he bought for $4.6 million in early 2008, months before the Irish government seized the lender he had run since 2005. The locals have "Drumm sightings," says Peggy Flynn, who lives nearby in Chatham. "One day I was outside, and somebody said, 'Oh, there goes Mr. Drumm on a bike.' "

The government bailout of Anglo Irish–once Ireland's third-largest lender by assets–could cost taxpayers more than €34 billion ($48 billion), according to the Central Bank of Ireland. Irish regulators have also mounted a criminal investigation of the bank. Drumm hasn't been charged with any offense. Stewart F. Grossman, his bankruptcy attorney, did not return phone calls or e-mails seeking comment.

Drumm was dispatched to Boston in the late 1990s to establish a U.S. base for Anglo Irish, which had become a force in Irish property lending. In 2003, having created a U.S. loan book that topped €1 billion, Drumm returned to take over Irish lending. He became chief executive officer in 2005, at age 38. CEO Sean FitzPatrick became chairman.

Drumm trebled lending in four years to €73.2 billion at the end of September 2008, €9.3 billion of which came from the bank's U.S. business. Anglo Irish backed at least $2.4 billion of Manhattan real estate deals from 2005 through 2009, including the purchase of a Ralph Lauren store and the Beekman Tower and Eastgate Tower hotels. The bank has labeled almost €1.5 billion of U.S. loans as impaired since the end of March 2009, and an additional €1 billion is "past due but not impaired."

During the global credit crisis, the Irish government was forced to guarantee the bank's deposits. In late 2008 the Irish corporate watchdog, the Office of the Director of Corporate Enforcement, became aware of "certain irregularities" at the bank, says ODCE spokesman Kevin Prendergast. On Dec. 18, 2008, FitzPatrick issued a statement saying he had borrowed €87 million from Anglo Irish and had not disclosed the amount of the loan. He and Drumm resigned. The bank was nationalized weeks later, and five directors quit, citing in a statement their "disappointment



Drumm boosted Anglo Irish's real estate lending in the U.S.







*A fence has gone up at Drumm's waterfront home on Cape Cod, which he bought for $4.6 million in 2008. He valued the house at $2.95 million in his bankruptcy filing.*

over the management of loans to the former chairman." The ODCE is investigating "matters associated with the loans made by Anglo to its directors over a number of years," according to its 2009 report.

That's not all. Anglo Irish disclosed in February that it received €7.3 billion in deposits from another Irish lender just before its fiscal year ended on Sept. 30, 2008. The deposits were withdrawn days later in what amounted to "circular transactions," according to a statement from the Irish financial regulation office.

The ODCE is investigating "the declared level of customer deposits at Anglo in 2008," it said in the 2009 report. In February 2009, Irish police raided the bank for documents. Prendergast says the ODCE continues to work closely with Irish fraud police, who are carrying out an overlapping investigation. He would not comment on what role, if any, Drumm is alleged to have played.

Anglo Irish disclosed in its 2008 annual report that it had lent €451 million to 10 "long-standing clients" to buy a 10 percent stake in the bank. Most of the loans were secured by the shares the clients bought, according to the report. The shares are now worthless, and the ODCE has said it is investigating.

In a interview in October with the *Sunday Independent*, an Irish newspaper, Drumm said that he acted at all times "with the full cooperation and backing" of Irish financial regulators and the central bank and on the strength of legal advice. He will cooperate with the investigation, he said.

Anglo Irish has sued Drumm in a Dublin court, accusing him of not paying back about €8 million in loans. When Drumm and the bank failed to settle the dispute in October, Drumm filed for Chapter 7 bankruptcy in Boston, declaring debts of $14.2 million and assets of $13.9 million. His Wellesley property, held through a trust, is valued at $1.85 million, while he valued his Chatham house at $2.95 million. In Drumm's backyard in Chatham, steps lead down to a private beach facing the Oyster River, where his neighbors sail pleasure boats. Peggy Flynn had hoped that Drumm would become part of the community. "He said he was going to have us all down at Christmastime, and I think he intended to do that," she says. "Then everything blew up." —*Donal Griffin*

***The bottom line*** *The Irish government continues to investigate activities at Anglo Irish Bank during the time Drumm was CEO.*

**-0.1**

PERCENT

**The change in Americans' incomes in September, the first drop since July 2009.**

DATA: COMMERCE DEPT.



Fixed Income

# Bonds Are Having Their Best Year Since 2002

- **An ideal combination of low rates, low inflation, and slow growth**
- **"Certain maturities can't go much lower in yield," warns Pimco's Gross**

From Treasuries to German bunds, and corporate bonds to mortgage securities, the world's fixed-income market is poised for its best year since 2002 as slow growth, tame inflation, and record low interest rates in many major economies create an almost perfect environment for debt investors.

Bonds have returned 6.57 percent in the first 10 months of 2010, including price appreciation and reinvested interest, a pace that would total 7.94 percent for the full year, based on Bank of America Merrill Lynch's Global Broad Market Index. That would be the most since the measure, which tracks more than 19,000 securities with a par value of $36.9 trillion, surged 8.92 percent in 2002. The Standard & Poor's 500-stock index gained 7.73 percent, including dividends, over the same time.

Money is pouring into debt as central bankers refrain from raising rates while inflation slows. "We are in a Goldilocks environment for fixed income that will last for the next 5 to 10 years," says B. Scott Minerd, who helps oversee more than $100 billion as Guggenheim Partners' chief investment officer.

Some of the biggest bond firms warn that fixed-income investors may suffer as the Federal Reserve prints more money and floods the world with dollars in an effort to avoid deflation. Bill Gross, who oversees about $1.24 trillion as co-chief investment officer at Pacific Investment Management Co., said in late October that the 30-year bull market is almost over because "certain maturities can't go much lower in yield." He compared the government bond market to a Ponzi scheme, dependent on finding more investors so borrowers can roll over an ever-rising amount of debt.

So far, that hasn't been a problem for some large government borrowers. Investors submitted $5.7 trillion in bids for the $1.9 trillion of notes

MERRILY CASSIDY AND CHRISTINE HOCHKEPPEL/CAPE COD TIMES

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Lower-risk emerging-markets bets page 63 ▶



New homes in Riyadh, where it can be hard to find a mortgage

and bonds sold in auctions by the U.S. government this year, according to data compiled by Bloomberg. The 3-to-1 ratio is a record. In Japan, the sale of 30-year securities by the government on Oct. 14 drew bids for 5.4 times the amount offered, the most in eight years.

"The trend in yields is still downward," says Lacy Hunt, executive vice-president at Austin (Tex.)-based **Hoisington Investment Management**, whose Wasatch-Hoisington U.S. Treasury Fund has returned 7.3 percent on average over the past five years, beating 96 percent of its peers. "Until the economy turns around, we won't see any inflationary pressure, which means fixed income can rally further."

—*Cordell Eddings and John Detrixhe*

***The bottom line*** *As slow economic growth in most major economies helps to keep inflation and interest rates low, bond investors are reaping solid returns.*

## Quoted

**"The relative importance of housing to the consumer has been highly exaggerated.... Employment trends and stock market wealth seem to have much more impact."**

—Tobias Levkovich, Citigroup chief equity strategist



Regulation

# A House, a House, My Kingdom for a House!

▶ A new Saudi law is seen as easing the nation's tight home loan market

▶ Rules might "free up the real estate market and bring it to the masses"

After five fruitless years of seeking a mortgage in Riyadh, 28-year-old Abdulaziz Al-Salem has some advice for his peers: forget it. "Homeownership in this country is nothing short of a nightmare," says the father of one. "If you're not descended from a wealthy family nor have an extremely successful business, you probably should give the whole thing a pass."

Saudi Arabia's housing stock has failed to keep up with a population that has quadrupled, to about 25 million, over the last 40 years. The country's underdeveloped home finance system and property law are a big part of the problem, analysts say. Now prospective Saudi homeowners are waiting to see whether the kingdom adopts new regulations designed to make mortgages more accessible. The oil-rich nation could support a home lending market of about $32 billion annually, given the pent-up demand for homes, according to Capitas Group International, an investment management firm.

A proposed law, which is part of an overhaul of the kingdom's home finance market, would change or create rules for everything from registering mortgages to letting judges prosecute policemen who won't carry out eviction orders. The changes are aimed at easing lenders' concerns that unclear regulation makes mortgage lending risky because of potentially lengthy court disputes. "You can't function as a mortgage finance business without having a law that regulates all activities," says Henry Azzam, **Deutsche Bank**'s regional chief executive for the Middle East and North Africa. The new law would encourage lending by giving banks legal recourse to respond when a borrower doesn't pay, he says.

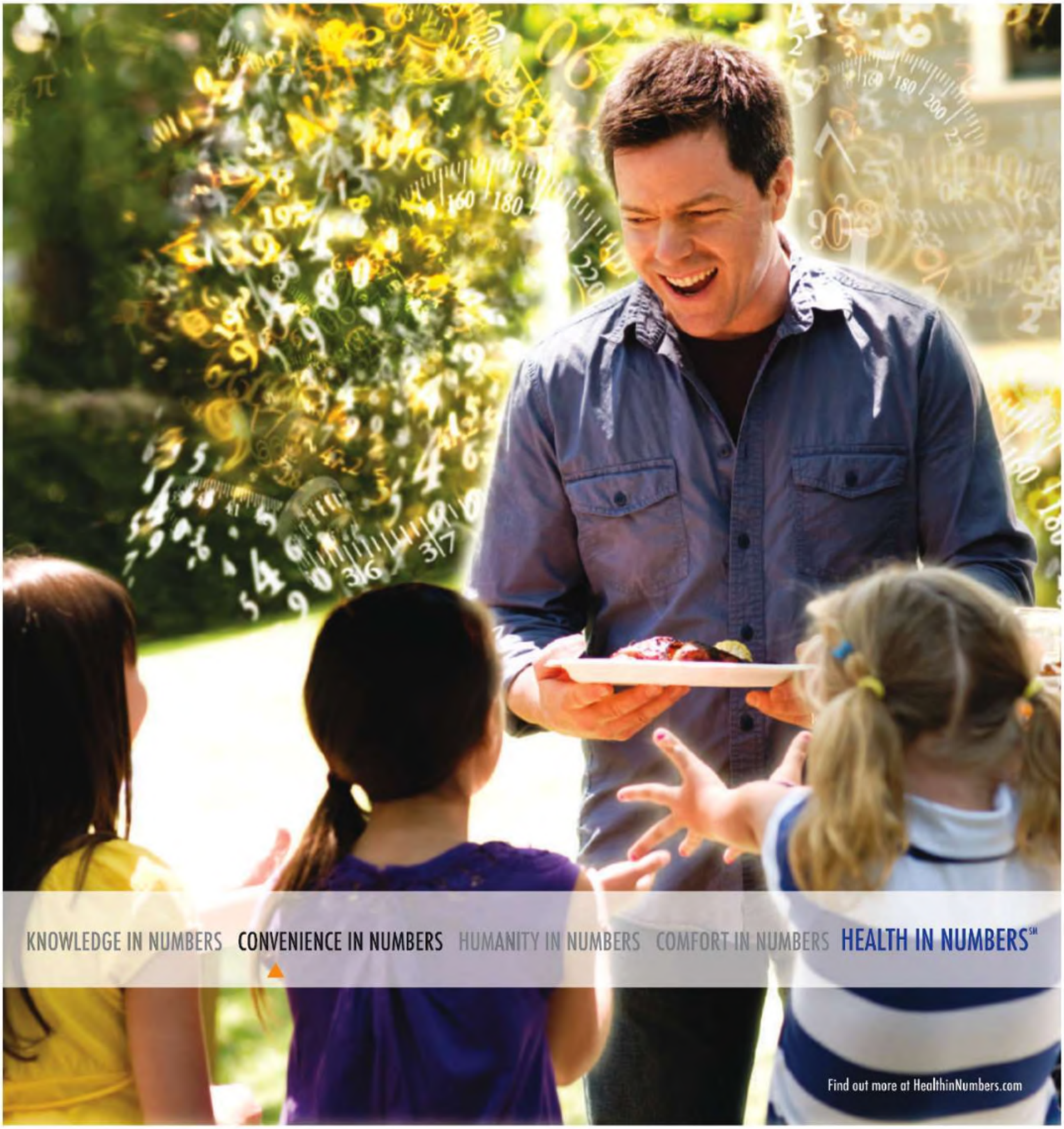
Plenty of details still need to be ironed out, particularly rules involving evictions and foreclosures, as well as bureaucratic tussles over which agency should regulate financial products covered under the legislation. A vote by the Shura Council, an advisory body to the king, on still-disputed sections of the law is expected in the coming weeks, after being postponed earlier this year. Should the government and the council fail to reach a consensus, King Abdullah has the power to decree the measure law without legislative approval, says Abdulaziz Al Gasim, a partner at the Al Gasim law firm who was involved with drafting the mortgage law alongside **Allen & Overy**, an international law firm founded in London. ➔

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If the legislation passes, many see a residential construction boom in the making. Credit Suisse estimates that 2 million homes could be built by 2014 as developers increase investment. Saleh Al-Shoaibi, head of the Shura Council's Economic Affairs and Energy Committee, thinks the country needs 18 million to 20 million homes over 10 years. "The demand is huge and can't be easily met," Al-Shoaibi says. "It will require a system that facilitates homeownership."

As things stand, fewer than 1 percent of Saudi home purchases are financed by mortgages. That compares with 7 percent in neighboring United Arab Emirates and 66 percent in the U.S., according to Deutsche Bank estimates.

One reason home loans are scarce in Saudi Arabia is that Saudi mortgages have strings attached. Lenders often demand the title to a property, stress their right to evict defaulters, and seek complete control over borrowers' bank accounts to prevent them from getting loans elsewhere. "I've been renting for the past 10 years, and that's money down the drain," says Badr Abdulla, a 29-year-old resident of Riyadh. "But that's still better than putting my life and bank account under the direct control of banks."

Some international banks are now trying to fill the void. Deutsche Bank and local Saudi Arabian investors led by Fahad Abdullah Abdulaziz Al Rajhi formed a $110 million joint venture for mortgages compliant with sharia, or Islamic law, in April that is already giving out 5- to 20-year mortgages to Saudis and foreigners. "The segment that we're targeting is the 500,000 riyal [$133,000] home mortgage," says Paul Loiacono, chief operating officer at Deutsche Gulf Finance. "The person looking for that is part of a young up-and-coming couple looking to buy a first home." Most of Saudi Arabia's demand comes from low- and middle-income consumers.

For frustrated homeowners like Al-Salem, the new mortgage law can't be passed soon enough. It's "the only way to free up the real estate market and bring it to the masses," he says. "It has to happen." —*Zainab Fattah*

***The bottom line*** *Unless Saudi Arabia passes a new home finance law, getting a mortgage will remain tough for young families.*



# Bid & Ask

by Cristina Lindblad




1 Spain's **Banco Bilbao Vizcaya Argentaria** is paying $5.8 billion for a 24.9 percent stake in Turkiye Garanti Bankasi, gaining a foothold in Europe's fastest economy.

2 Douglas Miller, CEO of **Exco Resources**, a Dallas-based oil and natural gas producer, has proposed taking the company private in a $4.4 billion deal. Texas energy investor T. Boone Pickens wants to take part in the buyout.

3 **Enel**, Italy's largest utility, raised $3.1 billion in an initial public offering of shares in its renewable energy unit.

4 In its second telecom deal in a week, private equity firm **Carlyle Group** offered $2.6 billion for Florida's Syniverse Technologies, which specializes in mobile messaging and network technology.

5 **McKesson**, the biggest U.S. drug distributor, acquired US Oncology for a total of $2.2 billion. US Oncology provides clinical tools, information, and supplies to doctors treating cancer.

6 Spain's **Ferrovial** is selling its airport ground services business to Paris-based PAI Partners for $909 million.

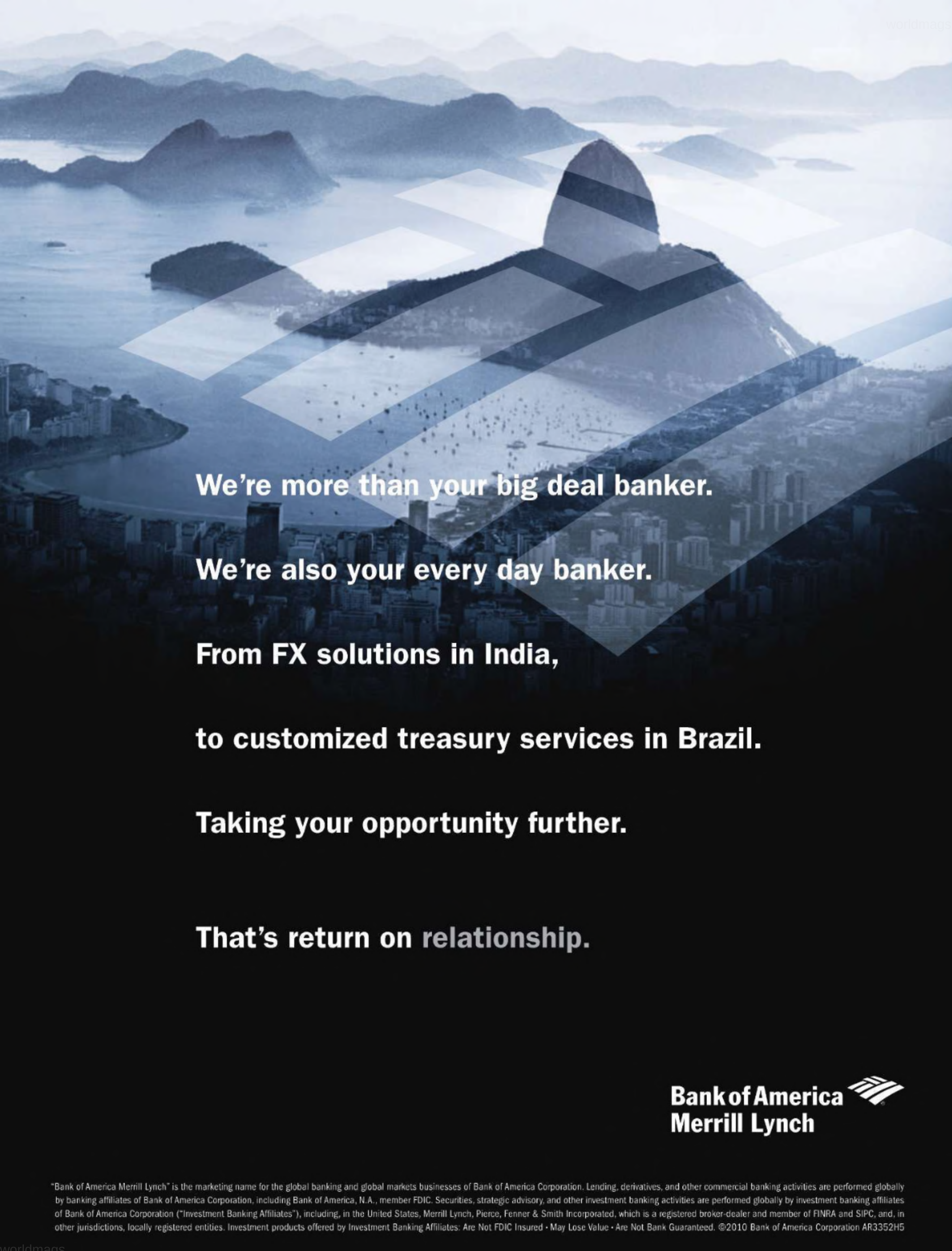
7 **Ares Life Sciences**, a health-care investment company, is paying $500 million for a 47 percent stake in French allergy medicines maker Stallergenes, in preparation for an eventual takeover.

8 After posting six straight quarterly losses, Wilmington Trust, the Delaware lender founded by the du Pont family, is selling itself to **M&T Bank** for $351 million, about half its Oct. 29 market value.

9 In a sign that the market for classic cars may be cooling, a **DB5 Aston Martin** that appeared in the James Bond movie *Goldfinger* sold for $4.6 milion at auction in London—close to $1 million below the presale estimate.

10 Three bottles of **Chateau Lafite's** 1869 vintage sold for a record price of $230,000 each at a Sotheby's auction in Hong Kong.

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**Contents** ▶ Peace brings growth to Sri Lanka 62 ▶ The attraction of emerging-market dividend stocks 63 ▶ Warsaw's exchange is Central Europe's bourse to beat 64 ▶ Investors see less risk in developing countries 64 ▶ A historic opportunity for growth in Brazil 65 ● **Edited by David Rocks**

Focus On

# Emerging Markets



**$16bn**
Indian investment in Africa since 2005



# Corporate India Finds Greener Pastures—in Africa

**▶ To avoid competition and red tape at home, companies are looking across the Indian Ocean**

**▶ "Africa looks remarkably similar to what India was 15 years ago"**

Indian billionaire Ravi Ruia has flown to Africa at least once a month for the past year and a half. He's invested in coal mines in Mozambique, an oil refinery in Kenya, and a call center in South Africa. Soon, he may also have a power plant in Nigeria. "Africa looks remarkably similar to what India was 15 years ago," says Firdhose Coovadia, director of African operations at **Essar Group**, the $15 billion conglomerate headed by Ruia and his brother, Shashi. "We can't lose this opportunity."

Faced with increasing competition and a welter of bureaucratic obstacles at home, Indian companies are looking to Africa for growth. Since 2005 they have spent some $16 billion on the continent, vs. at least $31 billion for the Chinese, according to data compiled by Bloomberg and the Heritage Foundation, respectively. **Bharti Airtel**, India's largest mobile-phone provider, in June paid $9 billion for the African cellular operations of Kuwait's **Zain**. In 2008, India's **Videocon Industries** paid $330 million for two coal mines in Mozambique, and India's state-run fertilizer maker bought an idled Senegalase phosphorus producer for $721 million.

Beyond those big deals are dozens of smaller acquisitions and investments by Indian companies. "Compared to India, valuations [in Africa] are quite attractive," says Anuj Chande, who heads the South Asia Group at accounting firm Grant Thornton in London. "We're expecting to see a lot of midsize deals across a variety of sectors."

**79**
Indian acquisitions in Africa since 2005

The Indians view Africa as a place where they can replicate the low-cost, high-efficiency business model they have honed at home. Like India, Africa has hundreds of millions of underserved consumers eager to buy products tailored to their needs. Consumer spending in Africa may double, to as much as $1.8 trillion, by 2020, McKinsey & Co. predicts, an increase that would be the equivalent of adding a consum-

ILLUSTRATIONS BY LOTTA NIEMINEN

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er market the size of Brazil. As a pioneer in sales of single-use sachets of soap and shampoo (along with **Unilever** and **Procter & Gamble**) for lower-income Indians, Mumbai-based **Godrej Consumer Products** understands "low-cost, value-for-money products," Chairman Adi Godrej said in a May interview. In June his company acquired Nigerian cosmetics maker **Tura**, and in 2008 it bought South African hair-care company **Kinky**. "We want growth. Whether it's from inside or outside India, we are agnostic," Godrej said.

Indian companies also see Africa as a hedge against a possible slowdown at home. "If tomorrow the Indian economy was to take a U-turn, then at least you have other markets which are growing," says Neeraj Kanwar, managing director of **Apollo Tyres**, India's No. 2 tiremaker. His company bought South Africa's **Dunlop Tyres** for $62 million in 2006, giving Apollo two manufacturing plants on the continent and brand rights in 32 African countries. Apollo aims to triple sales, to $6 billion, by 2015, with 60 percent of revenue from abroad, vs. 38 percent today. "Africa is going to give me growth," says Kanwar.

Essar has endured endless squabbles with Indian landowners who refuse to make way for steel mills. Like other Indian companies tired of regulatory headaches at home, it moved into Africa and now has 2,000 employees there. Bangalore-based **Karuturi Global**, the world's largest rose producer, couldn't get enough land in India to compete with European and African rivals. Many times flowers wilted on the tarmac as cargo flights were delayed or canceled, including a big Valentine's Day shipment. So in 2004, Karuturi bought a small plot in Ethiopia, and sales have since grown elevenfold, to $113 million in the year ended Mar. 31. Karuturi now leases 1,200 square miles of land—larger than the state of Rhode Island—in Ethiopia and sells more than half a billion roses a year. "Africa offered us a scale we could never reach in India," says Managing Director Sai Ramakrishna Karuturi. "I'd love to do more in India, but getting even 1,000 acres near Bangalore took years." —*Mehul Srivastava and Subramaniam Sharma*

***The bottom line*** *Indian companies, faced with increasing competition and bureaucratic obstacles at home, are looking to Africa for growth.*



Reconstruction

## After Decades of War, Sri Lanka Bounces Back

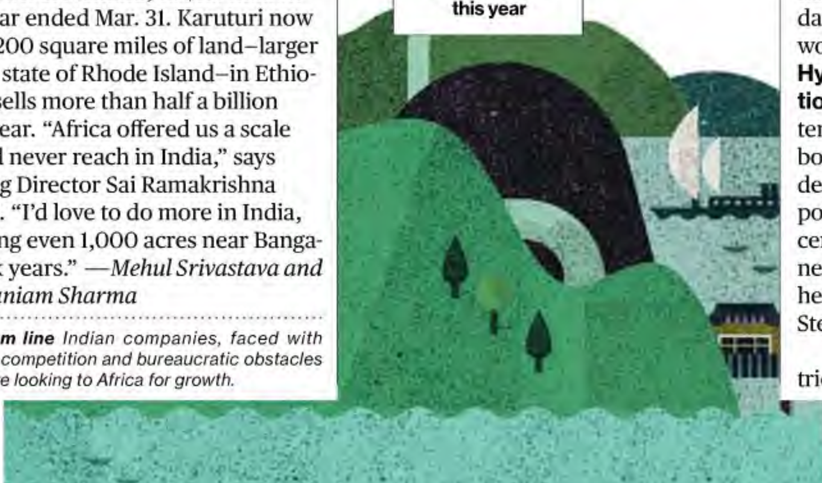


▶ Billions in foreign money, especially from China, is pouring in

▶ "There is a lot of renewed interest, but most of it is yet to be realized"

As recently as a year and a half ago, life in Colombo was tense. Residents were under constant threat of suicide bombs, and armed guards at checkpoints made crossing the city a hassle. "You went out every day not knowing what would happen," recalls Richard Vokes, Asian Development Bank (ADB) country director. Since Sri Lankan government forces defeated the Tamil Tigers rebel group in May 2009, though, the sandbags and checkpoints are mostly gone, tourists stroll the palm-fringed seaside promenade, and locals fly kites in front of the majestic colonial-era Galle Face Hotel. Living in Colombo is now "a very pleasant experience," Vokes says.

**103%**
The Colombo bourse's gain this year



The ADB expects Sri Lanka's economy to grow as much as 8 percent this year and next. Colombo's stock market is the world's second-best performer (after Mongolia) in 2010, more than doubling in value even as many investors wait to see whether the stability holds. Visits from foreigners have increased 40 percent so far this year and are expected to top 600,000 for 2010. The government hopes that number will hit 2.5 million by 2016 as word spreads about the white sand beaches, rainforests teeming with wildlife, and ancient temples nestled in the lush hillsides of the newly peaceful island nation. "Sri Lanka has been a closed shop for 30 years," says Joseph Michael Suresh Brito, chief executive officer of Colombo-based **Aitken Spence Hotel Holdings**, which is working with a Thai company on a $40 million community of luxury villas on the south coast. "People will come with no fear."

Tourism is one of three sectors the government is counting on to help reduce Sri Lanka's reliance on the garment trade and low-end manufacturing. At least a half-dozen resorts and hotels are in the works, including a $150 million property that Hong Kong-based **Shangri-La** is planning for Colombo's waterfront. IT outsourcing, another preferred sector, already employs 60,000 and is on track to bring in revenues of $350 million this year. By 2015 the government hopes outsourcing revenues will hit $1 billion. Agricultural exports, the government's third priority, grew 21 percent in the first eight months of the year, as farms that lay fallow during the conflict now yield rich crops of rice, lentils, and beans.

After decades of neglect and sabotage, Sri Lanka's roads, railways, and ports are ill-prepared for the growth. The government is planning billions of dollars in investment to upgrade dilapidated infrastructure, with much of the work going to multinationals. Korea's **Hyundai Engineering and Construction** is building a four-mile breakwater for a new container port in Colombo. Indian utility **NTPC** is close to a deal to build a $900 million coal-fired power plant on the east coast. And Swiss cement maker **Holcim**'s Sri Lankan business is up 22 percent this year. "Being here at this moment is fantastic," says Stefan Huber, Sri Lanka CEO for Holcim.

As in many other developing countries, China's influence is growing. A

TOP: DINUKA LIYANAWATTE/REUTERS

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$455 million loan from **China Eximbank** paid for a 300-megawatt power plant scheduled to open next year, and an additional $560 million in loans from China will go toward new roads, including a 20-mile expressway to Colombo's airport. In the south, Chinese workers are wrapping up the first phase of a $1.4 billion port in the town of Hambantota (photo). Nearby, a Chinese construction company is building Sri Lanka's second international airport at a cost of $210 million.

Many foreigners, though, have been slow to put their money on the line. In the first six months of 2010, Sri Lanka saw $208 million in foreign direct investment, down from $253 million in the first half last year. "There is a lot of renewed interest, but most of it is yet to be realized," says Nick Nicolaou, Sri Lanka chief for London-based bank HSBC. Some investors grouse that the Board of Investment, a government agency that must approve foreign-funded projects, makes it difficult to do business in the country. Says the board's chairman, Jayampathi Bandaranayake: "It's fair to say we could improve our services." He argues that as the board focuses on priority sectors, it will simplify the approval process and offer incentives to investors. "There's an expectation of big investments in tailor-made areas," says Bandaranayake.

One big worry is red tape and graft. Watchdog group Transparency International on Oct. 26 ranked Sri Lanka 91st out of 178 countries in terms of corruption. (No. 1 Denmark is the least corrupt country.) That put Sri Lanka one spot behind India, though well ahead of Vietnam (ranked 116). In July the European Union rescinded Sri Lanka's preferential trade access because of the country's human rights record.

Foreigners and Sri Lankans grumble privately about the growing power of President Mahinda Rajapaksa. After Rajapaksa was elected to a second term in January and his party swept parliamentary elections in April, Parliament lifted a two-term limit for the presidency. Three of Rajapaksa's brothers hold top government posts, and his 24-year-old son is in Parliament. "We haven't seen evidence of it yet, but if the family's power is used in the wrong way, then we have a big problem," says Mark Mobius, who has invested in Sri Lankan stocks and bonds as part of the $33 billion he manages for **Franklin Templeton Investments**.

Government officials say human rights issues are a top priority that Parliament is addressing. While they acknowledge that corruption is a problem, they insist it's no worse than in neighboring countries. The government, says presidential spokesman Lucien Rajakarunanayake, has "a commitment to minimize" corruption. Officials acknowledge that corruption is a problem, but businesspeople say it's no worse than in neighboring countries. And Rajapaksa's family, many people in business and government say, provides the stable leadership needed in the recovering country. "The Rajapaksa brothers seem powerful, but this issue didn't happen overnight," says Nirupama Rajapaksa, the president's cousin and a member of Parliament. "Our family has been in politics since 1931."
*—Frederik Balfour*

***The bottom line*** *Sri Lanka is poised for rapid growth as its economy bounces back from decades of civil war.*



**71%**
**Rise in Kangwon Land's stock price this year**

**Investing**

## A Safer Way to Bet on Emerging Markets?

▶ **Dividend stocks are getting new attention in a low-yield world**

▶ **"People are still quite nervous about market direction"**

Investors willing to risk their capital on stocks in developing countries typically seek out the fastest-growing businesses, hoping to tap into rapid economic expansion. As cash floods into emerging markets, though, more investors are opting for safer bets on companies that pay steady dividends.

The 50 equities with the highest dividends in the MSCI Emerging Markets Index have advanced 26 percent this year, vs. 13 percent for the 50 companies with the best earnings expansion, according to data compiled by Bloomberg. That's a big change from the past six years, when the highest-yielding emerging-market shares have trailed growth stocks by an average of 16 percentage points. "Some of the yields in emerging markets are a lot more attractive than in developed markets," says Jahanzeb Naseer, a strategist at Credit Suisse in Hong Kong.

Demand for emerging-market dividends is surging as record-low bond yields prompt investors to shift into stocks with reliable returns. While Brazil and Thailand have boosted taxes on foreign purchases of bonds to keep their currencies from rising too fast, and other countries are considering similar moves, none are likely to target stocks, says Jonathan Garner, a Morgan Stanley

## Emerging Markets

strategist in Hong Kong. "These measures are oriented more at short-term fixed-income flows," Garner says. "Countries tend to appreciate investors who take equity risk."

More emerging-market companies are returning cash to shareholders than ever before. At least 634 of the 754 stocks in the MSCI gauge paid dividends as of the end of September, including 52 that yielded more than the 5.64 percent average annual rate on emerging-market corporate bonds, data compiled by Bloomberg show. **Inversiones Aguas Metropolitanas**, a Chilean water utility whose dividend yield is about 8 percent, has seen its share price jump 25 percent since December. South Korean casino operator **Kangwon Land**'s stock is up 71 percent. It yields a more modest 3.3 percent of the current price, but the dividend payout is up 30 percent from the year before. Shares in **Companhia de Bebidas das Americas**, Brazil's biggest brewer, have climbed 35 percent and still offer a yield of about 6 percent, vs. an average of 2.4 percent for global peers, Bloomberg data show.



**35%**
**Share price rise in 2010 for Brazil's biggest brewer**

Some skeptics believe the shift toward dividends is a result of fear that emerging-market stocks may be poised for a fall. The MSCI Emerging Markets Index has advanced 13 percent this year, vs. a 6.4 percent gain in the Standard & Poor's 500-stock index. Investors would be piling into dividend stocks only if "they really don't trust the market overall," says Geoffrey Dennis, Citigroup's emerging-market equity strategist. "People are still quite nervous about market direction." —*Michael Patterson*

***The bottom line*** *Emerging-market dividend stocks are soaring as record-low bond yields prompt investors to seek out reliable returns.*

Markets

### Warsaw: The Bourse to Beat in Central Europe

▶ Polish and foreign companies are flocking to the exchange

▶ "No other bourse in the world gets [such] dramatic support"

When Ukrainian food producer **Agroton** wanted to list its shares in a public offering in October, the company skipped the Kiev bourse and went to the **Warsaw Stock Exchange** instead. Seeking to attract more investors, **Sopharma**, Bulgaria's biggest drugmaker, next year plans to allow its shares to trade in Warsaw in addition to the Sofia Stock Exchange. When Czech solar plant builder **Photon Energy** went public two years ago, it also chose Warsaw over its home bourse. The Prague exchange "doesn't fulfill one of its primary functions–to be a place where companies can raise capital," says Georg Hotar, Photon's chief financial officer. "In Poland, they can."



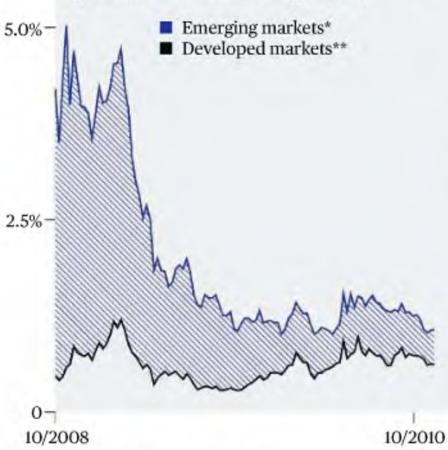
Finance

### Risk Redefined

Investors are wagering that Brazil, India, China, and other emerging markets will continue to fuel the global recovery, while more developed economies such as the U.S., Japan, and Europe wrestle with budget deficits and sluggish growth. Below are three telling indicators:

**Sovereign Debt**

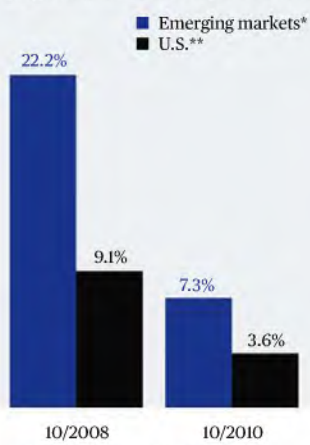
Cost of insuring debt with credit default swaps (percent of insured amount, per year)




*Brazil, Russia, India, China
**G7 minus Canada

**Corporate Bonds**

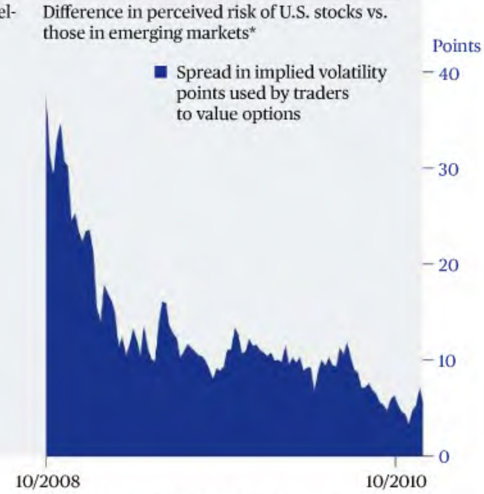
Yields on non-investment grade debt in developing countries vs. U.S. corporate bonds




*JPMorgan Corporate Emerging Market Bond Index High Yield Blended
**Barclays Capital U.S. Corporate Index

**Equity Options**

Difference in perceived risk of U.S. stocks vs. those in emerging markets*




*Three-month options on the iShares MSCI Emerging Market Index ETF vs. the SPDR S&P 500

DATA: BLOOMBERG

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More phones that work in
more countries, like Switzerland.

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Best coverage claim based on global coverage of U.S. carriers. Activation of international service required. Screen images simulated. BlackBerry,® RIM,® Research In Motion,® SureType,® SurePress,™ and related trademarks, names and logos are the property of Research In Motion Limited and are registered and/or used in the U.S. and countries around the world. Used under license from Research In Motion Limited. ©2010 AT&T Intellectual Property. Service provided by AT&T Mobility. All rights reserved. AT&T and the AT&T logo are trademarks of AT&T Intellectual Property. All other marks contained herein are the property of their respective owners. Mobile broadband and other services not available in all areas.

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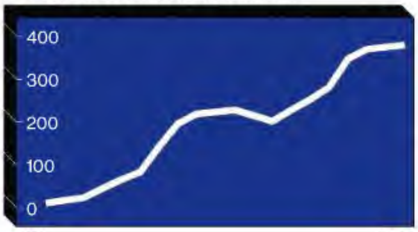
# Emerging Markets



The Chamber of Commerce's wish list page 70 ▶

## Polish Powerhouse

Listings on Warsaw's main market




DATA: WARSAW STOCK EXCHANGE

As other central European bourses struggle to attract listings, Warsaw is surging ahead. Last year it hosted $2.2 billion of initial public offerings, placing it third in Europe behind **NYSE Euronext** and London, according to PricewaterhouseCoopers. Warsaw's main market has added 21 companies this year and now lists 391 stocks. Its **NewConnect** market, with less stringent listing procedures for startups such as Photon, has added 61 stocks this year for a total of 169.

In October, Warsaw became emerging Europe's first publicly traded bourse after the state sold a 64 percent stake, reducing its ownership to 35 percent. The offering raised more than $400 million and should help enhance Warsaw's position as the hub for trading in the region, says Chief Executive Officer Ludwik Sobolewski. "We want to create a little London, attracting international listings and capital," he says.

Founded in the old Communist Party headquarters in 1991, the Warsaw bourse now occupies a new 10-story steel-and-glass building nearby. It lists 26 companies from 18 foreign countries. **UniCredit**, Italy's biggest bank (and owner of Poland's **Bank Pekao**), trades in Warsaw as well as its home base of Milan; **Reinhold Polska**, a Stockholm-based property developer, and **Kulczyk Oil Ventures**, a Canadian oil exploration company controlled by Polish billionaire Jan Kulczyk, are both listed solely in Warsaw.

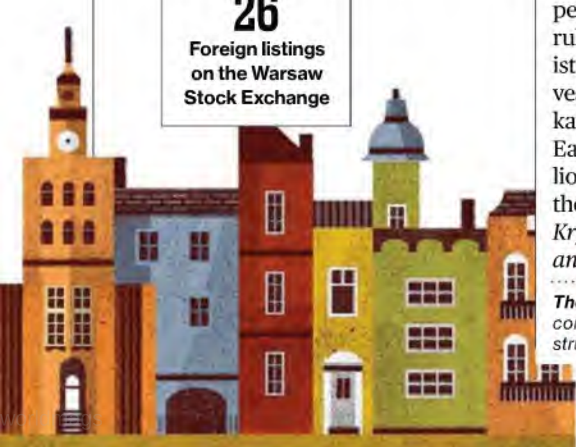
The exchange's success contrasts sharply with rival bourses. Market capitalization in Warsaw has tripled in the past two years, to $189 billion. That makes it 50 percent bigger than Vienna, which had ambitious plans for the region after buying exchanges in Hungary, the Czech Republic, and Slovenia. Warsaw's trading volumes now average $270 million a day, vs. $202 million in Vienna, $115 million in Budapest, and $84 million in Prague. Until this autumn the Prague bourse hadn't seen an IPO for more than two years. And Czech bookmaker **Fortuna Entertainment**, which raised $109 million in its Oct. 22 debut, co-listed in Warsaw. "Prague really missed the IPO train," says Peter Domeny, an analyst at Czech brokerage Cyrrus.

Other exchanges say Warsaw has an unfair advantage. In the past two years, the government has sold off major companies in insurance, power, chemicals, and coal mining to raise funds and get more of the formerly Communist economy into private hands. And Poland's pension funds must invest at least 95 percent of their assets inside the country, while the minimum in Hungary is 65 percent and in the Czech Republic it's just 50 percent. "You have an influx of mandatory investment on one hand and the state throwing in a bunch of companies on the other," says Petr Koblic, CEO of the **Prague Stock Exchange**. "No other bourse in the world gets as dramatic support as the Warsaw Stock Exchange."

The European Commission has sued Poland, saying the foreign-investment limits for pension funds breach EU rules. The Polish state argues the funds are exempt from EU regulation. The European Court of Justice hasn't yet made a ruling. "It might sound a bit protectionist, but it's important" to encourage investment in local stocks, says Peter Hakansson, chairman of Stockholm-based East Capital, which manages $5.8 billion in emerging-Europe assets. "That is the key for Poland." *—Pawel Kozlowski, Krystof Chamonikolas, Ladka Bauerova, and Nandini Sukumar*

***The bottom line*** *The Warsaw bourse is attracting companies from abroad even as rival exchanges struggle to get new listings.*

**26**
**Foreign listings on the Warsaw Stock Exchange**





# Speed Dial Paulo Leme

Goldman Sachs' emerging markets chief says his native Brazil should seize a historic opportunity for growth as a new President takes over

**How do you see Brazil right now?**
The economy is growing at almost twice the rate that it has in the last 10 years. Brazil is experiencing a fairly healthy increase in employment and wages, and an improvement in income distribution, so there is a feel-good factor. I would say this is a once-in-a-century kind of opportunity to accelerate growth to 6 or 6.5 percent and unleash all of this upward mobility.

**How can Brazil make that happen?**
The key is structural reform–for example, a reduction in the tax burden, which would make exports more competitive. Also things that would boost productivity, like better education and a better health system.

**Is Brazil growing too fast?**
Domestic demand is outstripping supply. The appreciation of the real also makes it cheaper to import from the rest of the world. Brazil would benefit enormously from some containment in fiscal spending and public credit growth and moderation in public-sector wage hikes.

**Is that the direction you expect from President-elect Dilma Rousseff?**
She has the awareness and possibly the inclination to do some rebalancing of macroeconomic policies. We are on the eve of another significant monetary easing by central banks in advanced economies. However, at some point they will tighten significantly. The question is, will that lead to a sudden stop of capital flows or even a reversal? Brazil's macro policy should be prepared for that eventuality. B
*—Matthew Bristow*

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NFM-8782AO (10/10)

**If Tom Donohue, the head of the U.S. Chamber of Commerce, has his way, the President's change agenda is finished**

# oBAMA

By Devin Leonard
Photograph by Rennio Maifredi



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Two days before Halloween, a squadron of protesters from the radical feminist group CodePink showed up in front of the headquarters of the U.S. Chamber of Commerce in Washington, D.C. The agitators, who were dressed as vampires, produced masks bearing the craggy visage of Thomas J. Donohue, the chamber's white-haired chief executive. Through the wonders of Photoshop, they had given him a wicked set of eyebrows, sharp fangs, and a red-stained mouth.



The protesters unfurled a black "Chamber of Horrors" banner and chanted, castigating the chamber for spending upwards of $50 million to help flip the leadership of the House of Representatives from Democratic to Republican. "Help! Help! Dracula Donohue is sucking the blood from me and you!" they wailed. "Help! Help! The Chamber of Commerce is making this election even worse. Help! Help! We're under attack. We want our democracy back!"

The 72-year-old Donohue could hear it all from his fourth-floor office, where he was trying not to gloat on the eve of a midterm election that was about to come out almost exactly as he hoped. "It sounds like our friends are here," he said.

The head of the Chamber of Commerce–the nation's largest business trade association, with an annual budget of $258 million–doesn't mind being called a bloodsucker or inspiring howls of protest. To the contrary, the opposition lets his members know he's doing his job–which makes them more likely to give money to his organization.

During the last two years, empowered by $350 million in donations from corporations such as Dow Chemical, Goldman Sachs, Chevron Texaco, and many other anonymous sources, Donohue has emerged as President Obama's most effective antagonist. Almost every time the President introduced a major initiative, the chamber and its leader were primed to attack: New health-care laws imposed a "burdensome mandate on employers," and the Administration's Wall Street reforms would "choke off" business' access to capital. And don't get Donohue started on the White House's climate change proposals. It didn't matter that Obama helped resuscitate the banking system, bailed out auto manufacturers, and meddled far less with Wall Street than many of his supporters would have wished. Donohue tapped into a powerful vein of discontent within the business community and rode it like a rocket.

Perhaps not surprisingly, his enemies were enormously gratified when the chamber stumbled early in its anti-Obama campaign. In August 2009, William Kovacs, the chamber's senior vice-president for environment, technology, and regulatory affairs, called for public hearings on the validity of the climate science that had triggered the Environmental Protection Agency's decision to regulate greenhouse gas emissions. He predicted a spectacular debate much like that surrounding the 1925 Scopes Monkey Trial, in which proponents of evolution and creationism battled in court, a remark that suggested the chamber was as skeptical about the dangerous effects of global warming as some of its Republican allies. The response was swift: Five major companies, including Apple and Nike, resigned from the board or from chamber membership in the face of the public outcry, and some local chambers distanced themselves from Kovacs' comments. "I think the chamber's approach is somewhat old school," Valerie Jarrett, one of the President's senior advisers, complained to the Huffington Post.

As the criticism reached a boil, Donohue reminded everybody of why he's a Washington institution who has been around since 1997. He repudiated his senior vice-president's inflammatory statement and moderated the

CODEPINK

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chamber's tone on global warming just enough to calm some of its critics ("So let me state without equivocation: We, the U.S. Chamber of Commerce, support strong action on climate change"). Donohue also ramped up his organization's fundraising. Its opaque 501(c) operation, which is not legally required to identify its funding sources, poured $32 million into television "issue" advertising often critiquing Obama's allies in Congress during this election cycle, according to the Center for Responsive Politics. The vast majority goes to Republican candidates. (Obama and his allies shot back, accusing the chamber of accepting undisclosed funds from foreign corporations, a charge Donohue vehemently denies.) The chamber's partner in the campaign was Karl Rove's American Crossroads, a conservative fundraising group whose president, Steven Law, is a former U.S. Chamber of Commerce general counsel. "The chamber and the Crossroads groups meet periodically and share information about where they will be engaged in the U.S. Senate and House races in order to make sure that efforts aren't doubled," said Jonathan Collegio, a spokesman for Rove's organization, on the eve of the election.

**"How do I feel?" Donohue says. "Tired. But that's fine. I think our guys did a great job." He intends to spend his new political capital on cutting taxes and reducing regulation**

On Nov. 2, the Republican Party won control of the House of Representatives and increased its presence in the Senate by six seats, making Obama's chief tormentor even more powerful than he was before. The chamber supported the winner in 38 of 59 contests. "How do I feel? Tired," Donohue said the next day. "But that's fine. I think our guys did a great job."

He intends to spend his new political capital by reconfiguring the country's economic policies the same way that large corporations have always wanted to: by cutting taxes, slashing regulation, forging trade deals with foreign countries, and reducing the deficit.

He'd like to start by chipping away at the President's legislative achievements such as health-care and financial reform, which must still be implemented at the regulatory level. In short, the battles between the chamber and the White House are far from over. "Oh, hell no," Donohue laughs. "They are in the second inning."

Donohue's critics have taken notice. "The chamber can walk into any office on Capitol Hill and the first thing the member of Congress will think about is the $50 million that the chamber spent in this election for them or against them," says David Donnelly, director of Public Campaign Action Fund's Campaign Money Watch. "That's an incredible amount of clout to throw around."




CodePink protesters: "Dracula Donohue is sucking the blood from me and you!"

### A grenade in his pocket

The night before CodePink's vampires showed up on his doorstep, Donohue presided over a dinner for lawyers and lobbyists from media and pharmaceutical companies including News Corp., NBC Universal, Walt Disney, Merck, and Johnson & Johnson at the chamber's headquarters. The guests were complaining about people pirating their goods at home and in China.

Piracy is a difficult problem to solve, but Donohue was upbeat. He praised Victoria Espinel, the White House's intellectual-property czar. "She's a good person," he said. "We just need to make sure she has the resources to do her job." He said that a bill designed to crack down on intellectual-property theft was winding its way through the Senate and stood a good chance of passing, even in this contentious political environment. "It's really a bipartisan effort," he assured everyone.

Waiters appeared with plates of mesclun salad and goat cheese soufflés, accompanied by a Napa Valley chardonnay. Then they returned with the main course: port-wine-and-orange-glazed duckling, paired with a California Pinot Noir. Donohue kept the conversation flowing as fast as the wine. He joked



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One of the keys to Donohue's success is his zealous fundraising

with a Viacom lobbyist about the fact that she had only recently left a job on the staff of one of the House's most liberal leaders. "Congratulations for switching sides," he said. He teased a Disney lobbyist about his company's plan to build a theme park in China—warning that it would take forever and to be wary of competition from the country's state-supported businesses. "He's going to be retired by the time it's done," Donohue told the group. "I told him, 'Come and see me, and tell me how you like it. Of course, there's going to be one just like it across the street.'"

As the waiters circled with warm banana-and-macadamia pudding, the conversation took on a darker tone. Donohue announced that the chamber had been digging into the funding sources of anti-globalization groups that might try to thwart their efforts overseas. "We found that 50 or 60 percent of their money comes from the same person," Donohue said dramatically. He wasn't ready to name names just yet. Instead, he acted like a man with a hand grenade in his pocket who couldn't wait to hurl it. "It's going to be a story," the chamber leader promised. The people sitting around the table seemed baffled. (Later, when asked if he was referring to George Soros, Donohue laughed and said, "That's a pretty good guess.")

Then, at 8:30 p.m., Donohue glanced at an antique clock on the sideboard and declared that it's the chamber's policy never to keep guests longer than the scheduled time. He bid his lobbyist friends farewell and prepared to head home to Potomac, Md., where he lives with his wife, Liz. "That's my favorite clock," he said.

## In praise of relentlessness

Donohue grew up in Brooklyn and still has the accent to prove it. He got his MBA from Adelphi University in 1965 and in 1976 became a vice-president at the U.S. Chamber of Commerce. Eight years later, he was named president of the American Trucking Assn., a position he held until the chamber lured him back to be its chief executive officer in 1997. By all accounts, he reinvigorated the association. "Tom brought to the chamber an enthusiasm that it was lacking," says Senate Minority Leader Mitch McConnell (R-Ky.). "I think he turned the Chamber of Commerce into an incredibly effective organization."

One of the keys to Donohue's success was his zealous approach




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## Donohue injected the chamber much more aggressively into electoral politics, endorsing mostly Republican "probusiness" candidates and spending money to get them elected

to fundraising and the way he used the money once he got it. John Castellani, the former president of the Business Roundtable, an association of the CEOs of the largest U.S. companies, remembers overhearing Donohue berating Phil Condit—who was Boeing's CEO at the time and the roundtable's chairman—for not giving the chamber more money. "Well, I'm the chairman of the Business Roundtable," Condit replied. Donohue wasn't put off. "Yeah, but if you would give the money to the chamber, we'd get these issues settled," he said, suggesting that there was no question which lobbying group he thought was more effective.

His members see Donohue's relentlessness as a primary virtue. "I think they admire his tenacity, his enthusiasm, and his working style," says Jim Owens, the ex-Caterpillar CEO who retired this year. "In a job like that, you have to have an outgoing personality; otherwise, you just become part of the bureaucracy in Washington. I think there are a lot of people in the business community who are glad he hasn't become part of the bureaucracy."

Under Donohue's leadership, the chamber underwent a dramatic shift. Previously, it focused primarily on legislation. But with his newly amassed war chest, Donohue began to inject the organization much more aggressively into electoral politics. The chamber started endorsing "probusiness" candidates, most of them Republicans, and spending money on advertising to get them elected. "We've always been involved in the political process," Donohue says. But, he adds, the chamber "didn't really start spending money until I came back."

Along the way, Donohue became friendly with a number of U.S. Presidents. He had a long relationship with George H.W. Bush, whom he found "very interesting." He's even more ebullient discussing Bush's successor: "I think Clinton was a fascinating guy," he chuckles. "You could always do a deal with Clinton—as long as you watched out for the deal he did with the next guy." Of George W. Bush, he says: "I liked Bush Two as a person. I thought he showed a lot of courage in difficult times." He leaves it at that.

The warmth drains out of Donohue's voice entirely when he talks about Obama. The chamber supported the President's $787 billion stimulus package. But Donohue took it personally when the Administration banned lobbyists in the White House. "I think what we do is highly honorable," he says.

It wasn't long before the chamber and the White House were locked in disagreement. Ever the shrewd Washington operator, Donohue employs a classic tactic when he explains why he opposed nearly every major legislative step the Administration took: He was all for health-care and Wall Street reform, he says. He just didn't like the proposals the Democratic-controlled Congress came up with.

What Donohue says he objected to in the Administration's efforts, predictably, were the new regulations in the White House-backed health-care and financial reform legislation. "We are going to have a regulatory tsunami," Donohue says. "We had to look at the possibility that we were moving from a government of the people to the government of the regulators." Donohue's message was indistinguishable from that of the Republican National Campaign Committee.

In response, White House official Amy Brundage e-mailed this statement: "There are fundamental disagreements between the chamber, which vowed to fight against any new regulations, and the President, who believes the regulations are necessary to protect the American people and prevent another financial crisis, which cost more than eight million American jobs."




The chamber poured $32 million into "issue" advertising during this election cycle

Even as the stock market recovered and corporate profits soared, Donohue started on another audacious offensive, to convince the public that CEOs are maligned, underappreciated, and victimized. "I mean, look at when all the banker guys were up there [in front of Congress]," Donohue says. "These are good people. ... I mean, [JPMorgan Chase CEO] Jamie Dimon is a good person, and the first thing [the politicians] do, instead of talking about the national crisis, is they spend all their time arguing about how they flew here in corporate jets. By the way, if they had all flown in the same jet, the SEC would have indicted them."

CEOs are grappling with an uncertain economy, Donohue says, and the whims of shareholders who are apt to call for their ouster unless they deliver stellar returns. "I mean, bottom line is, the tenure as a CEO isn't what it used to be," he says.

A cynic might suggest that Donohue is pandering to his constituents. If so, it works. Donohue says that during what he describes as the three-week controversy over climate change, the chamber signed up 100 new companies as members. "If you want an answer to the question, are we doing all right?" he says, "yeah, we are doing really well."

The chamber's fundraising increased significantly during the year before the midterm election, and Donohue sprinkled $1 million on issue ads in support of Massachusetts Senator Scott Brown, a Tea Party favorite who won the late Edward Kennedy's seat in January's special election, shattering the Democrats'

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"I liked Bush Two as a person," Donohue says. He leaves it at that






filibuster-proof majority in the upper house. Then, almost immediately, the chamber started bombarding the rest of the country with similar spots in the congressional races, in concert with American Crossroads.

Not every local chamber welcomed the U.S. chamber's ad campaigns, many of which were starkly negative. "It's caused a lot of confusion for our members and others who think we're somehow involved in attacking Senator [Barbara] Boxer or Speaker Pelosi, and we're not," says Rob Black, vice-president of public policy at the San Francisco Chamber of Commerce.

Debbie Braun, president of the Aspen Chamber Resort Assn., has the same complaint. "We certainly do not agree with their stance on energy, and we are fairly disappointed with the negative advertising that goes on," she says. "Our membership continues to question why we would be affiliated with an organization that isn't aligned with our community goals." Donohue says he hears such complaints from local affiliates, but only very rarely.

Now, with his strategy having proven effective, Donohue and the chamber are plotting their post-election agenda. A week before the House flipped, R. Bruce Josten, the chamber's silver-maned, Benson & Hedges-smoking chief lobbyist and Mr. Fixit, said that a lot would be unclear after the election, even if the Republicans triumphed. There would be struggles over congressional committee chairmanships and lame-duck shenanigans. But he was certain of this much: The President's change agenda was history. There would be nothing like the Affordable Health Choices Act, no more Keynesian spending. "He is going to have to operate differently," Josten said.

Josten did offer a consolation prize: He had suggestions about ways the newly humbled White House could cut some deals with the GOP and still find some legislative victories. As he noted, the White House is already working on a trade agreement with South Korea that could be announced as early as next week. That may not endear the President to his union supporters, but the chamber will applaud.

**Bruce Josten, the chamber's chief lobbyist, is certain of this much: The President's change agenda is history. Obama "is going to have to operate differently"**

The chamber's chief lobbyist also recommended that the Administration put its support behind a permanent extension of the Bush tax cuts. The White House signaled just before the election that the matter would be considered carefully. Josten would also like to see a corporate tax cut and increased federal spending on infrastructure, which would also be a boon to the private sector. The White House has signaled it will mull these over as well.

Donohue says the chamber intends to challenge many of the regulations in the health-care and financial reform acts. It has already sued to keep the EPA from regulating greenhouse gas emissions and to block a provision that would make it easier for shareholders to get their own candidates on corporate boards. "You may not know we have our own law firm," he says proudly. He is still trying not to gloat. "It's a public-interest law firm. We sue the federal government of the United States 150 times a year on regulatory issues." He adds: "By the way, we win a lot." Ⓑ

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by Brendan Borrell and Daniel Grushkin

In UN-patrolled Western Sahara, phosphate goes to port via a 62-mile-long conveyor belt

In May 2009 a petite brunette from Paris wearing black heels scrambled up a pile of mine tailings on the outskirts of the Moroccan town of Khouribga. From up there, Béatrice Montagnier, a hotel specialist with the hospitality consulting firm Horwath, took in the view: parched plains scoured by bulldozers; an old warehouse baking in the sun; a jumble of two-story concrete block homes with a rectangular minaret beyond them. She spun around 360 degrees snapping photos with her pink cell phone and imagining the future: a planned 800-acre resort project that would attract visitors from around the world. How many hotel rooms would they need? she wondered. Should it be three stars or four? And where would the museum be going? There was one issue—project funding—about which Montagnier had no questions. The estimated $1 billion needed to build the resort would come from the ground beneath her feet.

Miners have been working in Khouribga for almost a century, but only now is the area poised to become central to the global economy. Back in the 1920s pioneers started tunneling through the earth here, digging through layers of sediment formed under an ancient sea, looking for phosphate-rich rock and occasionally plucking out the tooth of a 30-million-year-old shark. The phosphate extracted from the rock, used in fertilizer, detergent, food additives, and more recently lithium-ion batteries, sold for decades in its raw state for less than $40 per metric ton. Those days are gone. It's currently trading at about $130.

This is good news for King Mohammed VI, 47, who owns more than half the world's phosphate reserves. James Prokopanko, chief executive officer of Plymouth (Minn.)-based fertilizer giant Mosaic, has called Morocco the Saudi Arabia of phosphate, with all that implies about the King's power to influence prices and economies. Mohammed's strategy, by most accounts, is to drive the commodity's price higher yet—which means the cost of making everything from corn syrup to iPads will be going up as well.

Mohammed VI is the unofficial overseer of the state-owned phosphate monopoly, Office Chérifien des Phosphates (OCP), Morocco's largest industrial company. He is also the power behind Montagnier's visit to Khouribga, which lies on the Plateau des Phosphates, halfway between the modern city of Casablanca and the salmon-colored souks of Marrakech. Today it is a scrappy mining town of 160,000 that doesn't even merit a mention in Fodor's. That's about to change, says Montagnier, repeating the words of her client: "It's time to give back to Khouribga what the earth gave to us."

**"God just put the phosphate there," says one official. "It is our only resource, and it is our responsibility"**



King Mohammed VI, center, speaks in Tangier in 2009, flanked by his son Crown Prince Moulay Hassan (left) and his brother Moulay Rachid

The project will be called the Mine Verte, or "green mine," and it will be a fantasyland glorifying the country's mineral inheritance. The plans are grand, in the Dubai style. As is the fashion these days in Arab monarchies, the Mine Verte will be environmentally sustainable, thus the "green." Fossils hidden in OCP warehouses will be displayed in a sparkling museum powered by wind and sun. A depleted mine will be transformed into gardens, performance spaces, and housing for OCP employees and other visitors, all designed by top French and Moroccan architects working with London-based environmental consultants BDSP. Plans for a "mega-amusement park" on the premises include an equestrian center, a cable car, and an indoor ski slope on a pile of mine waste. Even bungee jumping made the list; the King is a thrill-seeker, fond of jet-skis and sports cars, who once flew his Aston Martin DB7 to London for repair. In all, the Mine Verte will be a glittering monument to geologic good fortune.

Phosphate, when used as fertilizer, is the irreplaceable engine powering modern agriculture, and its reserves are in decline almost everywhere except Morocco. Most phosphate mines, including those in the U.S., which produces 17 percent of the global supply, have been in a downward spiral for the last decade, running out of quality rock and hindered by environmental regulation. That has forced companies to look farther afield for additional supplies. Earlier this year, Mosaic spent $385 million for a 35 percent stake in a Peruvian mine to supply rock to its phosphate operations in the U.S. and South America. Meanwhile, Australia's mining giant BHP Billiton has been threatening to take over Canada's PotashCorp, a major supplier of both potash and phosphate.

Even a temporary phosphate shortage could affect a range of U.S. industries. Phosphate fertilizer is used on just about every crop, though most in the U.S. goes to the 13 billion bushels of corn grown each year to make everything from corn syrup to cattle feed to ethanol. When prices climbed tenfold in 2007 and 2008, retailers and farmers scrambled to build local fertilizer warehouses as a buffer. Now, according to Dirk Lohry, owner of Nutra-Flo, a crop and animal nutrient manufacturer in Sioux City, Iowa, many of those warehouses stand empty

PREVIOUS SPREAD: MICHAEL FAY/NATIONAL GEOGRAPHIC/GETTY IMAGES; REUTERS



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as supplies are being used too quickly to build inventory. The prospect of a shortage has become serious enough that the Office of Intelligence and Counterintelligence at the U.S. Energy Dept. recently assigned an analyst to study the issue; she was not permitted to speak publicly because of "geopolitical sensitivities."

One could look at the 2007-08 food crisis for clues to how a shortage might play out. At that time, rising food prices led to riots across Africa and Asia—the Pakistani Army even stepped in to defend warehouses and farms. Before the crisis was over, China had levied a 135 percent export tariff on its phosphate to protect its domestic food supply; phosphate there is still taxed at 110 percent at the height of the buying season.

The scale of Morocco's phosphate wealth was officially verified in September, when the International Fertilizer Development Center released its long-awaited update on global phosphate resources. Morocco's portion went from the 5.7 billion metric tons still cited in U.S. Geologic Survey reports, to 50 billion metric tons—85 percent of the world's total. Even with 170 million metric tons of concentrated phosphate changing hands each year, the Moroccans likely have at least 300 to 400 years of rock available. Talal Zouaoui, OCP's director of communications, won't agree or disagree with estimates, but says in an e-mail that Morocco has "significant reserves," and notes that reserves denote only those quantities that countries have discovered and deem economically viable to extract.

With a growing world population consuming more grain, more meat, and more biofuels, demand is expected to rise at a rate of 2 to 3 percent per year, according to the International Fertilizer Assn. Some experts, like Dana Cordell, co-founder of the Global Phosphorus Research Initiative, predict that phosphate production will "peak" within the next 50 years.

Not all phosphate becomes fertilizer: About 15 percent is turned into detergents or food additives, such as the tangy phosphoric acid in Coca-Cola, or the moisture-retaining salts in salami. (As U.S. states try to control the use of phosphates, which promote algae blooms in water bodies, Procter & Gamble and other detergent makers have been experimenting with phosphate-free products, with mixed results.)

OCP controls 30 percent of global phosphate exports, and plans to increase annual production from 30 million metric tons to 54 million metric tons by 2015, investing $5 billion in the process. By that time, Prayon, a Belgian phosphate processor in which OCP owns a 50 percent stake, believes demand for phosphate as a component of the lithium-ion batteries in electric vehicles could exceed demand for it in detergent.

Morocco is already testing its power. At September's World Fertilizer Conference in San Francisco, Morocco's ascendancy was the main topic of conversation. Asked about OCP, trader Mark Mangassarian answered with a question: "Oh, you mean the guys who are trying to drive up phosphate prices the most?" In contrast to commodities such as oil and corn, whose prices are set largely on futures exchanges,



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***Please see additional important information on next page.***

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**IMPORTANT SAFETY INFORMATION:**

LIPITOR is not for everyone. It is not for those with liver problems. It is not for women who are nursing, pregnant or may become pregnant.

If you take LIPITOR, tell your doctor if you feel any new muscle pain or weakness. This could be a sign of rare but serious muscle side effects. Tell your doctor about all medications you take. This may help avoid serious drug interactions. Your doctor should do blood tests to check your liver function before and during treatment and may adjust your dose.

Common side effects are diarrhea, upset stomach, muscle and joint pain, and changes in some blood tests.

**INDICATION:**

LIPITOR is a prescription medicine that is used along with a low-fat diet. It lowers the LDL ("bad" cholesterol) and triglycerides in your blood. It can raise your HDL ("good" cholesterol) as well. LIPITOR can lower the risk for heart attack, stroke, certain types of heart surgery, and chest pain in patients who have heart disease or risk factors for heart disease such as age, smoking, high blood pressure, low HDL, or family history of early heart disease.

LIPITOR can lower the risk for heart attack or stroke in patients with diabetes and risk factors such as diabetic eye or kidney problems, smoking or high blood pressure.

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**Who can take LIPITOR:**

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**Who should NOT take LIPITOR:**

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- People with liver problems
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## ABOUT LIPITOR

LIPITOR is a prescription medicine. Along with diet and exercise, it lowers "bad" cholesterol in your blood. It can also raise "good" cholesterol (HDL-C).

LIPITOR can lower the risk of heart attack, stroke, certain types of heart surgery, and chest pain in patients who have heart disease or risk factors for heart disease such as:

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Serious side effects in a small number of people:

- **Muscle problems** that can lead to kidney problems, including kidney failure. Your chance for muscle problems is higher if you take certain other medicines with LIPITOR.
- **Liver problems.** Your doctor may do blood tests to check your liver before you start LIPITOR and while you are taking it.

**Call your doctor right away if you have:**

- Unexplained muscle weakness or pain, especially if you have a fever or feel very tired
- Allergic reactions including swelling of the face, lips, tongue, and/or throat that may cause difficulty in breathing or swallowing which may require treatment right away
- Nausea, vomiting, or stomach pain
- Brown or dark-colored urine
- Feeling more tired than usual
- Your skin and the whites of your eyes turn yellow
- Allergic skin reactions

**Common side effects of LIPITOR are:**

- Diarrhea
- Upset stomach
- Muscle and joint pain
- Changes in some blood tests

## HOW TO TAKE LIPITOR

**Do:**

- Take LIPITOR as prescribed by your doctor.
- Try to eat heart-healthy foods while you take LIPITOR.
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**Don't:**

- Do not change or stop your dose before talking to your doctor.
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- Do not give your LIPITOR to other people. It may harm them even if your problems are the same.
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A street in a rundown Laayoune neighborhood (left), deserted during the call to prayer, and the fishing village of Tarfaya (right)

phosphate prices are still negotiated the old-fashioned way: in closed meetings between buyers and sellers. Many such meetings took place at the San Francisco conference. Mangassarian, who is assistant vice-president for sales at Nitron International in Stamford, Conn., spent three days hopping from suite to suite at the Westin St. Francis on Union Square. Though the industry average for diammonium phosphate fertilizer (DAP) has been hovering at around $500 this summer, the poker-faced executives he sat down with weren't willing to go below $550. A few weeks later, Mangassarian came to see it their way, and is paying $560.

OCP's tough negotiating tactics have irritated many in the industry. "You try to talk to them, and they don't answer. They've always been like that. That's their strategy," says Taoufik Meddeb, who buys sulfur for Groupe Chimique Tunisien, another state-owned company and OCP's biggest competitor in North Africa. Late one afternoon at the conference, Meddeb was slumped on a couch in the hotel's lobby, recounting how much the phosphate world had changed over his 30-year career—everything, he said, except for the Moroccans' secrecy. Indeed, it seems as though everyone wanted to talk about Morocco except for the Moroccans themselves, who mostly deflected questions. "God just put the phosphate there," said Jamal Bensari, a member of OCP's delegation. "It is our only resource, and it is our responsibility."

Earlier this year, Mark Evans, editor of *Fertilizer International*, sent a reporter to Casablanca, but upon arrival at OCP headquarters for prearranged interviews, he says, OCP denied the reporter access and said the communications director who had dealt with Evans was no longer on staff. Zouaoui, OCP's current communications director, did not arrange interviews for *Bloomberg Businessweek* following multiple requests in September and October. "It is quasi-impossible right now," he explained. In a separate e-mail, he also noted that OCP is "subject to customary international governance standards for a global corporation, including transparency and accountability."

Opinions differ on the degree to which OCP is run by royal decree. Called the King of the Poor for his efforts to raise Morocco's living standards, Mohammed VI's $2 billion in assets places him seventh on *Forbes*' list of the richest royals, far behind Sheikh Mohammed of Dubai but well ahead of the Prince of Monaco. Although he is not technically the head of state, he has control of the country as both a secular and religious leader. He appoints the Prime Minister and his Cabinet, and has the power to overrule or dissolve the elected Parliament. His handsome portrait adorns the first page of OCP's annual reports, and his face appears in nearly every home and coffee shop. (The King also holds a controlling stake of the ONA Group, a publicly traded holding company that owns near-monopolies in Moroccan sugar and steel.) The Moroccan Embassy did not respond to requests for interviews with the King.

Although the King is liberal by the standards of Middle Eastern royalty (opponents called the rule of his father, Hassan II, the "years of lead" for its frequent killings and disappearances), he continues to be criticized for crackdowns on the press and for human rights abuses, including the fatal shooting in October of a 14-year-old Sahrawi boy at a checkpoint in Western Sahara.

## Morocco's best phosphate lies in what the U.N. calls "the non-self-governing territory of Western Sahara"

Western Sahara is a disputed territory. It's also where Morocco's best phosphate lies. The region known to the King as "Moroccan Sahara" begins just south of the fishing village of Tarfaya on the Atlantic coast. The U.N. calls it "the non-self-governing territory of Western Sahara" and deems it "occupied." It's a place where phosphate rumbles to the coast on the world's longest conveyor belt, while tanks and soldiers roam alongside, defending the shipments from Sahrawi separatists.

When Spain withdrew from Morocco in 1975, some 350,000 Moroccans marched into Western Sahara with tents on their backs. The native Sahrawi fought back for 16 years

under the leadership of the Algerian-backed Polisario rebels, signing a cease-fire in 1991. The U.N. continues to monitor the agreement with 215 uniformed peacekeepers, but a planned vote on self-determination has been repeatedly delayed. Today, approximately 90,000 Sahrawi live in refugee camps in Algeria, separated from their families in Moroccan-controlled territory by a 1,400-mile-long berm dotted with land mines.

In Western Sahara, rarely visited by North Americans, one finds the flip side of the optimism on display at Khouribga. Driving in and out of the principal city of Laayoune, one passes not one but two sets of checkpoints. Police in heavy coats haunt chaotic roundabouts in the desert town, and an attempt to photograph the clay-colored domes of the Catholic church—a reminder of the region's Spanish heritage—is met with a barrage of questions from a barrel-chested Moroccan soldier in green, followed by an order to move on. Laayoune has an official tourist office, unsigned and hidden from the street by a high wall, and a visit by two Americans was surprising to the attendant there. She had no printed materials to offer.

OCP reports that just 2 percent of Morocco's phosphate lies in the Phousboucraa mine at Bou Craa in Western Sahara, and that it accounts for 6 percent of sales. Zouaoui says in an e-mail: "In 27 of the 33 years from 1976 to 2008, Phousboucraa's net contribution to OCP was negative." Yet because the rock there is of the highest quality in the country, the mine produces 11 percent of the country's total output.

The U.S. Census Bureau collects import data on Moroccan phosphate rock coming from the disputed territory, but it suppresses data on some shipments, according to Stephen M. Jasinski, the phosphate specialist at the U.S. Geological Survey. This is done at the request of U.S.-based importers, he says, a phenomenon he has not observed with mineral commodities from other nations. He adds that he has "never been able to get a straight answer" from the Census Bureau about the Western Sahara data. They may be trying to avoid the trouble given companies in Australia and Norway, who have been pressured into promising not to use phosphate mined in Western Sahara. In August, Mosaic told the advocacy group Western Sahara Resource Watch that it has stopped buying rock from the territory and has no plans to renew shipments.

Eddia Sidi Ahmed Moussa is a Sahrawi and former miner turned labor activist who lives in a compound made of concrete block in Laayoune. A slight, 60-year-old man with a frosting of white beard and a perfectly bald head, Moussa sits on the floor in a blue robe, pounding the air and gesturing with his fists as he speaks. He tells of the days of the Spanish empire when the mines employed over 1,000 Sahrawi, and they were paid European salaries. He was a welder and later a firefighter, and the work was good. Today the mine employs fewer than 200 Sahrawis and recruits most new employees from Morocco. Despite the somber topic of conversation, the atmosphere in the house is boisterous as veiled women giggle and banter in Arabic and one of Moussa's relatives displays his palm-reading skills. Every Sahrawi wants independence, Moussa asserts: "We want to live on our own resources."

Morocco, meanwhile, offers subsidies, tax credits, and land grants to settlers, a policy that has drawn comparisons to Israel. For its part, the U.S., in addition to needing the phosphate, sees Morocco as an ally in the war against terrorism. Last year, Secretary of State Hillary Clinton reaffirmed U.S. support for Morocco's plan of "limited autonomy" for the territory, which stops short of the independence demanded by the Polisario.

**Federal data on phosphate coming from the disputed territory are suppressed, at the request of U.S.-based importers**

To his own people, at least, the King is generous, and the planned Mine Verte is but one display of the country's growing wealth. In January, OCP Chief Executive Officer Mostafa Terrab stood with the King and announced another green project in Benguerir, also a mining town on the Plateau des Phosphates. The planned city's buildings will be LEED-certified, and its roads will hum with electric buses and bikes in designated lanes. At its heart will be the new Mohammed VI Polytechnic University.

Béatrice Montagnier finished her Mine Verte consulting contract last year, but her employer, Horwath, has a small office in Rabat and is working on other projects. The King opened the Royal Mansour Marrakech hotel this year, with private riads—the traditional style of home with a courtyard and garden—going for $2,200 per night. For Khouribga, Montagnier has settled on three stars for the hotel, but says the final room tally awaits approval by OCP. Architects put the total price on the Mine Verte at €665 million ($937 million).

Khouribga's active mines begin about 6 miles south of the proposed museum, where powdery ravines pass underneath the bridges of the N11 highway. Out there, Founoun Mohammed, 48, is a subcontractor overseeing the first stages of a pipeline which will deliver phosphate in slurry form from Khouribga to the port of Jorf Lasfar south of Casablanca, 146 miles away. In jeans, an orange safety vest, and a matching helmet, he points out the path trucks loaded with rock take from the mine up to the plant where concentrated phosphate is separated from the rock. In a few years the phosphate will go straight into the pipeline to be processed by coastal fertilizer factories serving Brazil, India, and Pakistan.

Mohammed seems to embody the confidence of a country that finds itself on a gold mine. After work he settles down at the back of a favorite restaurant and talks business over seafood paella. A bottle of Moroccan wine is not to his liking, and he orders a French red for the table. "Khouribga is the world capital of phosphates," he says, "but we want to use tourism to make it something more. People will come from Europe, the United States, everywhere to see Khouribga. It will raise the level of the city." He is in high spirits and pours a glass of wine for the waiter, who tosses it back in a single gulp. Mohammed says he loves his country: He is safe and has a good job, what else can he ask for? "The King," he says, "is a gentleman." B


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# NEW ANDREESSEN



**BY BRAD STONE**

**PHOTOGRAPHS BY GREGG SEGAL**



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As Silicon Valley events go, it was an irresistible draw: Marc Andreessen, Web wunderkind turned venture capitalist, interviewing Michael Ovitz, former super agent and co-founder of the Creative Artists Agency.

The conversation between the pair of icons, staged last month in a packed conference room in the offices of Andreessen Horowitz–Silicon Valley's newest, hottest venture capital firm–turned out to be a lovefest. Ovitz, the most powerful man in Hollywood before his career imploded in the mid-1990s after a disastrous stint at Disney, called his friendship with Andreessen "one of the single most important relationships in my life." Andreessen, co-founder of Netscape, the Web browser company whose 1995 initial public offering kicked off the Internet era, said he modeled his VC firm on CAA. "A lot of what we're trying to do with Andreessen Horowitz is based on what Michael was doing at CAA and his theories about how to build a high-quality service firm," Andreessen said.

The pantheon of elite venture capitalists, as seen from Silicon Valley, is as indelible as the faces on Mount Rushmore. There's John Doerr, who invested in Intuit and Amazon.com; Mike Moritz, backer of Google and Yahoo!; and Vinod Khosla, the Sun Microsystems co-founder who helped fuel Silicon Valley's clean-tech wave, among others. Every so often an upstart tries to carve his own visage into the granite. At 39, Marc Andreessen, who first made the cover of *Time* magazine almost 15 years ago, thinks now is his moment to grab a chisel. With his longtime business partner, Ben Horowitz, 44, Andreessen raised $300 million last year amid the miasma of the recession and made big, loud bets on companies such as Foursquare, which lets people broadcast their arrival at shops, bars, and restaurants, and Skype, the Internet calling service. Skype, which could go public as early as next year, received $50 million from the pair, who were part of the syndicate of investors who spun it out of eBay.

**Marc Andreessen**
On his firm's investing strategy

**"When it comes right down to it, there are 15 tech companies a year you actually want to back. Our fundamental goal is to be a major investor in as many of those 15 as we possibly can."**

While many other VC firms are still reeling from a decade of weak returns and an influx of competing capital from Russia and China, Andreessen Horowitz is doubling down. On Nov. 3 the firm announced that it has raised a second $650 million fund. (Bloomberg LP, which owns *Bloomberg Businessweek*, is an investor in Andreessen Horowitz.) The firm also claims a new, Ovitz-inspired approach to venture capital. Andreessen wants to create a full-service VC firm that helps with all the needs of startups, from recruiting to public relations, just as CAA catered to every aspect of career development–and every personal demand–of film stars and directors.

Andreessen isn't simply trying to reinvent the Silicon Valley VC. He's also reinventing himself–morphing from visionary entrepreneur and small-time investor into a top-tier venture capitalist, an Ovitz-like power broker at the nexus of tech's largest companies, best deals, and most promising entrepreneurs. "We worked personally with a lot of great VCs. There is no magic in what they do. They just work incredibly hard at supporting entrepreneurs and their companies," Andreessen says, explaining his decision to enter the high-stakes VC game. "We have a hard time backing off a challenge."

Despite its novel approach and gobs of cash, Andreessen Horowitz's primary appeal to the Valley's geek-entrepreneurs may be Andreessen and Horowitz themselves. (Befitting its nerd cred, Andreessen Horowitz has a nickname and Web address, A16Z.com, that's a sort of winking word puzzle for left-brainers. If you can figure it out quickly, you qualify.)

Andreessen is the tireless, trash-talking grand marshal of Silicon Valley's change parade, who once kept a *New York Times* "deathwatch" on his blog and instructed Old Media moguls at a 2008 Sun Valley conference to sell all their non-digital properties immediately. He sits on the boards of eBay, Facebook, Hewlett-Packard, Skype, and Stanford Hospital–and has been at or near the center of just about every major Silicon Valley hiring, firing, coupling, and corporate divorce in recent memory. That includes the resignation of HP Chief Executive Mark Hurd earlier this year for shenanigans involving an expense account and a female contractor. (Andreessen was on the board committee that picked Hurd's successor, Léo Apotheker.)

Horowitz, Andreessen's equally astute and alopecic partner, is also an entrepreneurial superhero in the tech startup community. He was a vice-president at Netscape, then chief executive of Andreessen's before-its-time cloud computing startup Loudcloud, which was founded in 1999 to host the websites and e-commerce stores of other dot-coms. He helped to rescue the firm during the bust by repackaging it as a software company, changing its name to Opsware and selling it to HP for $1.6 billion.

While Andreessen has curtailed his own blogging, Horowitz's posts have become required reading for Valley entrepreneurs and often reflect both partners' views. For

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example, when Andreessen wanted to publicize his view of the Hurd scandal but was restricted by his board role from talking publicly, Horowitz published an item that slammed critics who thought the HP board had overreacted when it ousted the CEO. He called Hurd's accuser a "former soft-core porn movie actress" (she had starred in some saucy R-rated movies) and strongly implied Hurd and the woman had a sexual relationship (which both had publicly denied).

Horowitz says the blog post was his idea, though he ran a draft by Andreessen. "You can't expect people to understand your story and your point of view if you never say it," he says. "You can't just put the facts out there."

Following that principle, the partners deploy their own power and influence to publicize their second fund and frame Andreessen Horowitz as an elite venture capital firm. An interview list of friendly heavy hitters is given to a reporter, favors are called in, and suddenly the Valley's best and brightest can't heap enough praise on Andreessen Horowitz's early track record. Bill Campbell, the behind-the-scenes executive coach to Steve Jobs and Eric Schmidt, says the new venture capitalists have an enviable camaraderie with young entrepreneurs and have "climbed up the Sand Hill food chain amazingly quickly." Facebook COO Sheryl Sandberg talks about how Andreessen is a mentor to Mark Zuckerberg and, given his time at Netscape, has valuable experience facing down a larger, stronger rival. John Donahoe, eBay's CEO, calls while driving to his daughter's water polo game and praises Andreessen as a great listener who "brings a genuine curiosity about how to help a big company move quickly and innovate." Normally press-shy investment banker Frank Quattrone responds to a request via e-mail, using all capital letters: "NO VC OR PRIVATE EQUITY INVESTOR HAS SUCH A COMPREHENSIVE VIEW OF THE INDUSTRY FROM AN INSIDER'S PERSPECTIVE."

The business of Andreessen Horowitz is investing in companies that are building the digital future. But its offices, in a two-year-old Sand Hill Road office park owned by John Arrillaga, Andreessen's billionaire father-in-law, are in some ways a throwback to the analog past. They reflect Andreessen's belief that venture capital can learn from old-school service organizations such as talent and advertising agencies.

Greeting visitors as they walk in the door is a library, with Andreessen's personal collection of technology books mixed with ominous orange-hued photographs of mushroom cloud explosions from atomic tests. Other walls in the office, decorated from the private collection of Andreessen and his wife, Laura, a lecturer in business strategy at Stanford, are adorned by mid-century paintings from such artists as Robert Rauschenberg and Jasper Johns. In his own spacious office, a liquor cabinet is stocked with A.H. Hirsch and Black Maple Hill vintage bourbon; on his desk, Andreessen displays the Victrola used by a character on the TV show *Mad Men*, which he bought at auction for $1,000.

"Marc is a guy who believes the past is prologue," says Ovitz, who serves on the advisory board of Andreessen Horowitz and also invests in it. "You are dealing with a guy who created the future with Netscape who is basically looking backward for cues on how people behaved, their thought process and creative patterns."

Andreessen and Horowitz know how their connection to their controversial adviser might look. Ovitz was famous for racking up enemies as easily as 15 percent commissions. "You need to separate what he did for his clients from what his detractors think and why they think it," says Andreessen. "What he did for and with his clients is legendary. That's the part we're focused on."

As the partners point out, CAA under Ovitz controlled most of the major writers, directors, and actors in Hollywood. Andreessen contends this type of dominance would be impossible to achieve in Silicon Valley. Anyway, he doesn't really want *all* the deals—just the best ones. "When it comes right down to it, there are 15 tech companies a year you actually want to back," he says. "Our fundamental goal is to be a major investor in as many of those 15 as we possibly can, and we are set up to do that."

The crux of Andreessen and Horowitz's idea is to organize the firm as a unified high-service organization that provides help to fledgling startups in the areas critical to their survival while offering access to a wide network of people that reaches into other large companies throughout the high-tech community.

Other firms, they say, operate more like a collection of independent agents bound by a loose partnership. They can have a dozen venture capitalists—known as general partners—who act as lone gunslingers, finding deals, winning approval of peers for investments, and then catering to and advising those startups on their own. Startups who work with those firms primarily have access only to the advice and personal networks of their individual partner.

**Where They're Betting**

A very partial list

Andreessen Horowitz (aka A16Z) raised $300 million in the heat of the recession. It's invested about half of that in early seed-stage startups, slightly older venture-stage companies, and mature firms with potential for growth.

**FOURSQUARE**
A16Z won a bake-off with other VC firms to lead a $20 million investment in the check-in startup

**KNO**
Andreessen Horowitz led the $30 million funding of the textbook-ready tablet maker

**PICLOUD**
Joint $1.4 million investment with Kleiner Perkins and Greylock into the cloud-computing startup

**SKYPE**
In its biggest play so far, A16Z added $50 million to the $2.7 billion spinout of the Internet calling service

**ZYNGA**
A16Z got in late to the hot social-game maker by buying shares on the secondary market

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**Ben Horowitz**

On his defense of the HP board's handling of the Mark Hurd controversy



**"You can't expect people to understand your story and your point of view if you never say it. You can't just put the facts out there."**

Andreessen Horowitz's three general partners—the third is former Opsware vice-president and dealmaker John O'Farrell—collaborate on finding deals, then decide who is best suited to be the startup's main liaison. They also have a 15-person (and growing) operations staff, unusually large for a VC firm with only three general partners.

Most of these other employees at Andreessen Horowitz are called "partners"—another cue taken from Ovitz's CAA. They mainly focus on helping the firm's portfolio companies, much like the multiple departments of CAA would swarm over an actress to get her next movie deal—and also schedule her singing coaches, line up endorsements, and make sure she's huge in Japan. Andreessen Horowitz's chief operating officer, a former Opsware senior VP named Scott Kupor, aids startups with the logistics of raising money and runs the firm day to day. Teams are devoted to recruiting, public relations, and business development. Other firms have tried aspects of this holistic approach, such as adding a single in-house recruiter. Andreessen Horowitz has six, and they're mapping the Valley's talent pool—building a database of all the top designers, coders, and executives in the community. The firm then uses the data to help fill positions at its startups. It'll even line up talent for friendly large companies, notching favors to be repaid at a later date.

Andreessen and Horowitz say the firm's high staff-to-VC ratio frees them personally to focus on making investments and using the force of their reputations to close a deal or persuade an executive candidate to join a startup. Egon Durban, who led the Skype deal as managing director of the private equity fund Silver Lake Partners, calls this kind of persuasion the essence of what Andreessen does best. "He is a great closer because of who he is," he says. "People really respect him and respect his endorsement. That is pretty powerful when you are in a competitive process, such as trying to recruit an executive."

It's not clear yet what advantage this system gives the firm when trying to find those 15 elusive winning startups each year. So far, Andreessen and Horowitz appear to be relying on more traditional means: intuition and star power. In the summer of 2009, the pair met with Osman Rashid, the Pakistani founder of Kno, a startup in Santa Clara, Calif., that plans to manufacture a dual-screen tablet for digital textbooks. Some other top venture capital firms, allergic to building actual hardware and fearful of Apple and the impending iPad, passed on the deal.

Rashid, who also founded the textbook rental company Chegg, describes his meeting with Andreessen and Horowitz in romantic terms. "I felt something I haven't had with any other investor before," he says. "It was very fluid. It was right to the point." Over the next few months Andreessen Horowitz invested more than $30 million in Kno, about 10 percent of its first fund, and took a majority stake. It's the firm's second-largest bet after Skype. "Special product, special market, special entrepreneur, special economics," Andreessen says with his usual rapid-fire delivery.

The tablet, with the shape and thickness of a physical textbook, will go on sale later this year. Everyone in the Valley will be watching to see whether Andreessen Horowitz picked a winner—or suffered its first flop.

Since he first burst into the public consciousness in the mid-1990s, proselytizing for the browser and a new medium called the World Wide Web, Andreessen has always been at the forefront of those who believe in technology's promise to reshape and improve our economy and lives. Now that 2 billion people around the world have broadband—and 5 billion own mobile phones—reality is finally catching up to him. "This is Marc's time," says Quincy Smith of Code Advisors, an advisory firm. "All the things that he has been thinking about for the past 15 years are possible."

The danger for any visionary is being too far ahead of the curve to see how people live now. And Andreessen has sometimes misjudged the pace and direction of technological change. For example, although AOL bought Netscape for $4 billion in the heat of the dot-com boom, it fell far short of the Microsoft-toppling revolution Andreessen predicted back then. In fact, Microsoft crushed its rival.

In 2004, Andreessen started Ning, an ambitious company that allowed anyone to create and customize a social network. The firm was meant to outmaneuver Facebook in the same way the open Web had upended early Internet dial-up services such as AOL. Andreessen rarely brings up Ning these days, though he seeded the company out of his own pocket and ultimately persuaded investors to bet $120 million on it. While he is still chairman of the board and recently installed a former Netscape colleague as its CEO, it is difficult to see his move to the Facebook board in mid-2008 as anything other than a switch to the winning team in the middle of the game. Andreessen disputes that view and believes the Palo Alto (Calif.)-based company, which now charges people to administer specialized social networks, has turned the corner.

Andreessen's new venture capital firm also has its share of skeptics, particularly other VCs who speak only off the record, fearful of the partners' influence. They say it's too

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early to judge whether the firm's approach will produce bounteous financial returns, the only standard that matters in the industry. They also wonder if Andreessen Horowitz is willing to go a little bit further than others in tolerating potential conflicts of interest between the companies the general partners are involved in and the startups in which they invest.

Andreessen Horowitz's $20 million investment in Foursquare in June, valuing the startup at about $100 million, illustrates how Andreessen Horowitz plunges in where other firms fear to tread. Foursquare solicited bids from major VC firms along Sand Hill Road, but because of their investments in competing companies, top-tier firms such as Kleiner Perkins, Benchmark Capital, and Greylock Partners took themselves out of the running. Although Andreessen sits on the board of Facebook, Foursquare's primary competitor, and receives stock as compensation, Andreessen Horowitz was one of two firms that aggressively pursued Foursquare.

Andreessen Horowitz won the deal over rival Khosla Ventures in surprising fashion. During the process, Horowitz told a tech blog that the firm was pulling out, because the startup was vacillating about whether to raise money or sell out to a larger company. (Yahoo had shown interest.) Partners at Khosla Ventures thought they had the deal. Then Foursquare announced the winner of its VC bake-off: Andreessen Horowitz. The investment occasioned bitter whispers up and down Sand Hill Road that Horowitz's blog statement had been a duplicitous head fake and that Andreessen's Facebook directorship gave the firm a tactical edge all along because Foursquare wanted to get close to the massive social network.

Dennis Crowley, the co-founder of Foursquare, says he didn't mind Horowitz's public rebuke and concedes he was equivocating about raising the money. He also insists Andreessen's position on Facebook's board did not influence his decision, although he says it does demonstrate the venture capital firm's expertise. "The fact that they have a deep understanding of social [networks] I think is represented by Zuckerberg's trust in Andreessen," he says. Horowitz, not Andreessen, sits on Foursquare's board of directors. "There is a wall between the relationship I have with Ben and what Ben discusses with Marc," Crowley says.

Andreessen says that Facebook and Foursquare are fundamentally different companies with different goals and that Facebook's new check-in feature is a small part of its overall business. He acknowledges that his involvements in the boards of Facebook, eBay, and HP may create potential problems. He says he avoids them by keeping certain information confidential and recusing himself from sensitive portions of board meetings that involve areas where his startups compete. The models for these extracurricular activities are Kleiner Perkins' Doerr and Jim Breyer of Accel Partners, who sit on the boards of Google and Wal-Mart, respectively. That gives them unique insight into everything from the state of the global economy to technology trends. "As entrepreneurs, we always found it to be very valuable to have your VC connected into the broader industry so that if needed, he can plug you into any company that matters," Horowitz says.

Board seats–which are the primary way VCs exert their influence on startups–could compromise Andreessen Horowitz in another way. The wisdom on Sand Hill Road is that top investors can productively sit on at most 8 to 12 boards at any given time. Andreessen already sits on eight, Horowitz on five. Both will be asked to join more when they begin spending that next $650 million on the hottest startups, which will want to make their active involvement a condition of any investment.

Though he toys with the possibility he could effectively sit on up to 15 boards, Andreessen says this "is the central challenge for us and for other VCs. You are constrained far more by time than money." (E-mails from Andreessen to his CEOs come at all hours; Rashid of Kno looks at his in-box and tallies messages from Andreessen, on three different nights, at 2:17 a.m., 2:31 a.m., and 1:31 a.m.) Andreessen says the firm plans to add as many as three general partners over the next few years to lighten the load. The question is whether startups will want to do business with Andreessen Horowitz if they are getting a partner on their board whose name is not on the nameplate.

**Marc Andreessen**
On Mike Ovitz as a business role model

**"You need to separate what he did for clients from what his detractors think and why they think it. What he did for clients is legendary. That's the part we're focused on."**

Ovitz says he talks to Andreessen often about the challenges of time management. "Most of the conversations are probably irrelevant because I have never met a human being with such a fertile mind, photographic memory, and retention ability," he says. Ovitz, though, has other insights that may be more helpful. At the end of his public conversation with Andreessen, the ex-mogul said that he regretted scorched-earth tactics such as poaching every last movie-director client from the rival William Morris Agency. "We were too competitive," he said. "If I had to do it again, I'd ratchet back."

Andreessen is quick to point out that Silicon Valley is not Hollywood, and tech companies, including VC firms, find it easier to collaborate on one deal and then compete for the next. He says Andreessen Horowitz is sportsmanlike. Then again, when his firm launched last year, he said it would focus on small deals and that the founders wouldn't take board seats. Things haven't worked out that way. Asked what changed, Andreessen gives a long-winded answer. Pause. Grin. "We just can't help ourselves," he says. B

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# What It Really Costs

## Lakers Ticket: Sec. 111, Seat 18

**A prime seat at a Christmas Day game between the Los Angeles Lakers and the Miami Heat would cost $900 at the box office and about $2,582 on the secondary market. Where is all that money going? A back-of-the-envelope calculation.** ***By Ira Boudway***



**$135**
Selling, general, and administrative (SG&A) costs such as sales, promotions, advertising, and travel

**2** NBA teams are notoriously secretive about their numbers. A person who has seen the books of many teams (and asked to remain anonymous to be able to continue looking at the teams' books) estimates that, on average, teams spend 62¢ of every dollar in revenue on players, such as **Pau Gasol**. The Lakers have large salaries, but because revenue is so high the team likely apportions about 43 percent of revenue to payroll. Of the $900 ticket price, some $387 goes to Gasol and his teammates, and about $101 of that goes to Kobe Bryant. The Lakers would not comment on our estimates.



**1** The ticket has a face value of **$255** because that's what a season ticket holder pays. It would cost $900 at the box office. In 2008 the Lakers adopted a tiered pricing system, charging different amounts for different games, depending on the opponent. According to data from the ticket search engine SeatGeek, the asking price on the secondary market for a comparable ticket ranges from $1,473 to $6,000, with an average of $2,582. The Lakers, like other National Basketball Assn. teams, routinely underprice tickets, because owners have to worry about long-term fan loyalty. "Teams that are good today, by and large, are going to be bad down the road," says Rex Fisher, vice-president for business development at Digonex Technologies, which specializes in event pricing. "Maintaining a dedicated fan base is paramount."

### Following the Money

How the revenue from a Lakers ticket is shared among scalpers, owners, and everyone in between

Average price in the secondary market
**$2,582**

**$900**
(35 percent) to Lakers

**$1,682**
(65 percent) to seller

**$387**
to players
(of that)



The team's lowest-paid player, Derrick Caracter, gets $473,604 a season— $2 of this ticket

Kobe Bryant gets $24.8 million a season— $101 of this ticket



PHOTOGRAPH BY NICK FERRARI FOR BLOOMBERG BUSINESSWEEK; AP PHOTO; BLOOMBERG; GETTY IMAGES (2)

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The team is set to pay a $25.4 million penalty for exceeding the league's salary cap

**$104**
to luxury tax

**3** The operational costs for an NBA team, not counting player pay, account for an average of 23 percent of spending–$207 of this ticket. This includes coaches' salaries, scouting, and the cost of running the arenas. The Lakers share the **Staples Center**, which opened in 1999, with the NBA's Clippers and the National Hockey League's Kings. Coach Phil Jackson made $12.5 million last year, plus a $2 million bonus for winning the championship, making him the highest-paid coach in any sport. (In July, he agreed to come back for another year at an undisclosed pay cut.)

**4** It costs more to see the **Miami Heat** than any other NBA team this season, with an average ticket price of $222 on the secondary market for away games, according to SeatGeek. Last season the average away Heat ticket fetched $69–thanks to the arrival of LeBron James, Miami jumped 10 spots on the list of the most in-demand teams. In the NBA, fans and their money follow star players. According to Barry Kahn, CEO of the ticket-pricing consultancy Qcue, the visiting team accounts for roughly two-thirds of the variability in demand for a seat. Qcue's NBA clients–the Atlanta Hawks, Houston Rockets, and Utah Jazz–adjust prices throughout the season, a practice known as dynamic pricing.




Coach Phil Jackson made $12.5 million last year



**5** A Saturday game on **Christmas** between two marquee teams is a perfect storm of demand factors, and NBA schedulers plan it this way. A game's timing–whether it falls on a weekend or weekday, at the beginning or end of the season–accounts for a third of the variability in demand, according to Kahn. SeatGeek's data suggest that fans are influenced by the ebb and flow in the supply of games. "When a team is on the first game of a home stand, ticket prices tend to rise leading up to that game. There's a lot of pent-up demand," says SeatGeek founder Russ D'Souza. "You see the opposite effect with teams at the tail end of their home stand. There's a saturation point."

**$207**
to other operations. This cut includes arena costs, scouting, and coaching

**6** **Section 111** is in the lower bowl of the Staples Center and in the top tier of Lakers ticket prices, which range from $10 for a nosebleed seat in a throwaway game to this $900 superticket. Location accounts for two-thirds of ticket value, according to Kahn, and the quality of the event the remaining one-third: "What that means is that courtside seats for a meaningless game are worth more than upper-level tickets to a playoff game." The ticket, of course, is just the beginning. No matter who's in town, the average price of a beer at the Staples Center is $7.75.

These numbers were calculated using a projected $220 million in Lakers revenue in 2010 based on *Forbes* data over the last five years, league average operational and SG&A expenses, and the known cost of the team's payroll.

**$67**
(7 percent) estimated profit



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Miriam Novalle, founder and chief executive officer of T Salon, left, speaks about tea products with James "Jim" McCann, chairman and founder of 1-800-Flowers.com, Inc.

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The return of the "pot leaf" polo
Page 106



Preppy Sportswear & Hooky & Warhol & Conan

# Etc.

How Conan, and Triumph, blew it at 11:35
Page 114



# The Rise of the Vegan Moguls

*By Joel Stein*




Illustration by Peter Quinnell

TOP: BARRY BRECHEISEN/GETTY IMAGES; DEGENERES: FRAZER HARRISON/GETTY IMAGES; SIMMONS: ALBERTO E. RODRIGUEZ/GETTY IMAGES; CLINTON: GABRIEL BOUYS/AFP/GETTY IMAGES; WYNN: BRADLEY C. BOWER/BLOOMBERG



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# Etc. Power Vegans

It used to be easy for moguls to flaunt their power. All they had to do was renovate the chalet in St. Moritz, buy the latest Gulfstream jet, lay off 5,000 employees, or marry a much younger Asian woman. By now, though, they've used up all the easy ways to distinguish themselves from the rest of us—which may be why a growing number of America's most powerful bosses have become vegan. Steve Wynn, Mort Zuckerman, Russell Simmons, and Bill Clinton are now using tempeh to assert their superiority. As are Ford Executive Chairman of the Board Bill Ford, Twitter co-founder Biz Stone, venture capitalist Joi Ito, Whole Foods Market Chief Executive Officer John Mackey, and Mike Tyson. Yes, Mike Tyson, a man who once chewed on human ear, is now vegan. His dietary habit isn't nearly as impressive as that of Alec Baldwin, though, who has found a way to be both vegan and fat at the same time.

It shouldn't be surprising that so many CEOs are shunning meat, dairy, and eggs: It's an exclusive club. Only 1 percent of the U.S. population is vegan, partly because veganism isn't cheap: The cost comes from the value of specialty products made by speciality companies with cloying names (tofurkey, anyone?). Vegans also have to be powerful enough to even know what veganism is.

"CEOs are smart. There just hadn't been enough exposure for people to glom onto this trend," says Ingrid E. Newkirk, president of People for the Ethical Treatment of Animals. "The information is everywhere now. Instead of 'Better buy this blue chip,' it's 'Better eat vegan.'" When Newkirk learned Wynn had become a vegan, she didn't think the news was crazy. "Having dolphins in a small tank outside a casino is crazy," she says. "Ordering vegetables is not."

**"My meal companions are sometimes curious," says Twitter co-founder Biz Stone**

Wynn agrees. The self-described "animal nut," who included the Humane Society of the U.S. in his will, sold the Mirage Hotel—and its dolphin tank—in 2000, and gave up meat and dairy this June. Wynn was converted when his friend—telecom mogul and recent vegan Gulu Lalvani—made him watch *Eating*, a documentary in which director Mike Anderson explains his strict meat- and oil-free diet. "I watched it, and I changed the next morning," says Wynn. "Bang! Just like that." The transition was eased by the fact that Wynn happened to be on a yacht with a personal chef. As soon as he got home, he began spreading the gospel as only a mogul can—like buying 10,000 copies of *Eating*, one for each of his employees. "I'm providing the ass for the insurance. If they're sick, we're picking up the tab," says Wynn. "If I can keep them healthier, I'm acting like a smart businessman."

Though he swears it's not a condition of employment, Wynn has persuaded most of his senior management to go vegan. And since the majority of Wynn's lunch companions ask his assistant in advance what he likes to eat, he's got the upper hand at lunch before even sitting down. He can also suggest one of his own joints—Wynn now offers vegan menus at his restaurants in Las Vegas and Macau, including the steakhouses. "Last night I had dinner with Terry Semel, and we were eating at Wing Lei, the Chinese restaurant," Wynn says. "They couldn't believe the stir fry wasn't in oil. Everybody switched to my food."

Wynn's a convincing salesman, but a decade ago



## The Green Zone

Sadly, most PETA-friendly eateries remain kitschy falafel joints. "I think most chefs are scared to cook vegan," says lifestyle guru Kathy Freston. Herewith, places where the tempeh won't get in the way of business. —*Leslie Robarge*



**Pure Food and Wine**
*New York*

"It actually tastes like lasagna!" is a refrain at this raw vegan haunt, where none of the food, including the lasagna, is cooked above 118 degrees. The kitchen doesn't even have ovens or gas. Yet what really sets this candle-lit restaurant apart is its ever-changing list of more than 100 wines, most of which are biodynamic or organic.



**Horizons**
*Philadelphia*

Don't worry about incense-burning, burlap-wearing hippies: No one is more mindful of creating a nonvegan ambiance than Horizons owner Rich Landau, a self-professed meat lover ("I just can't eat it with a good conscience"). The menu offers traditional American dishes with a twist—like portobello and porcini shepherd's pie.



**Equinox**
*Washington*

This power lunch spot, located a block from the White House, serves meat and dairy, but the kitchen can whip up six-course vegan meals on the fly. Servers are versed in a meat- and dairy-free lexicon so diners "don't have to spend five minutes creating their own dish at the table," says owner Ellen Kassoff Gray.



**VegiTerranean**
*Akron*

Located 30 minutes from Cleveland, VegiTerranean is a top U.S. vegan eatery, according to Freston. This Mediterranean-inspired spot, owned by Pretenders front-woman Chrissie Hynde, has a corporate following. "I converted an entire law firm," Chef Scot Jones says. "They really wrapped their heads around it."



**Millennium**
*San Francisco*

For all its granola-loving hype, the West Coast lacks high-end vegan spots. However, this Bay Area institution makes up for it by being the granddaddy of them all. Executive Chef Eric Tucker, who has been there since opening day in 1994, serves lunch to suits who flock to the restaurant for its organic vegetables.

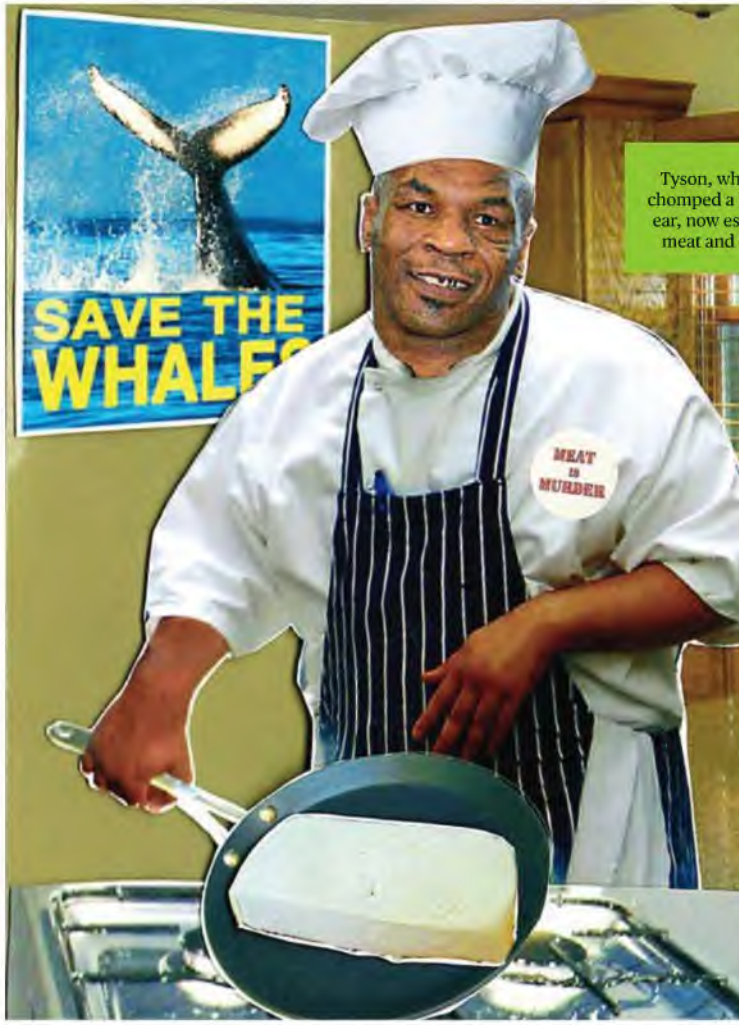
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even he couldn't have given away free seitan. Being a vegan then was so weird that pundits listed it as a reason Dennis Kucinich couldn't be the Democratic Presidential nominee. "People weren't sure if it was another political party or an ethnic group they'd never heard of," Kucinich says. While the Ohio representative failed to win the Democratic nomination in 2004—and in 2008—Kucinich's diet has become so accepted that he was able to persuade Representative Robert A. Brady (D-Pa.), the head of the Committee on House Administration, to include vegan options in the congressional cafeteria. When Bill Clinton announced his dietary epiphany—"I got back to basically what I weighed in high school," he told Wolf Blitzer this September—Kucinich decided to finally finish his own diet book, whose working title, *The Cleveland Diet*, will probably be changed by its publisher. Kucinich, however, did not go vegan for power, but rather for love. Fifteen years ago, he says, "I met someone who was vegan when I went to the state senate. This was someone I was very fond of. This was kind of a courtship strategy."

This is how most guys go vegan. According to Bart Potenza, co-owner of Manhattan power vegan restaurant Candle 79, the rise of the power vegan coincides with the rise of the vegan second wife. As the Four Seasons of seitan piccata, Candle 79 regularly hosts not only Zuckerman but also News Corp. CEO Rupert Murdoch and former Viacom CEO Tom Freston, who both have pro-vegan wives. "I live in the shadow of a power vegan," says Freston, whose wife, Kathy, got Oprah to convert for a three-week trial. "I'm well on the way myself. It's pretty clear the benefits are undeniable and many." In other words, as Potenza says, "I think she has him pretty much handled."

For others, veganism is a moral imperative. In 2000, Twitter co-founder Biz Stone went to visit Farm Sanctuary, an animal rescue organization with a location in upstate New York, and returned a vegan. So far it hasn't hurt business. "My meal companions are sometimes curious at most," says Stone, "but never judgmental." Though that tends to happen when you run a company with an estimated value of more than one billion dollars.

Farm Sanctuary's board includes a number of powerful vegans, including Tom Anderson, a former partner at McKinsey and CEO of college financing company Upromise. As an associate at McKinsey, he kept his veganism quiet for fear it would make him seem like a hippie. However, as he's climbed the corporate ladder, he's become increasingly eager to share the gospel of his eating ethics. In fact, he's bonded with a few executives over their shared anti-meat-and-dairy proclivities. The only times it hurts him, he claims, are when potential business partners tell hunting stories. "I'll have to say, 'I don't want to hear about that.' Then someone is on the defensive, and you don't want that in a business context," he says. Though as one associate of Dick Cheney can tell you, it's less uncomfortable than getting shot in the face.




Tyson, who has chomped a human ear, now eschews meat and dairy

ILLUSTRATION BY PETER QUINNELL; TYSON: KAREN BLEIER/AFP/GETTY IMAGES

**"People weren't sure if [veganism] was another political party," says Kucinich**

Veganism's image, however, could still use some updating. While it remains associated with indie rock stars, such as Moby, and people with pixie haircuts, such as Ellen DeGeneres, it also counts among its newest converts ex-NBA star John Salley, Atlanta Falcons tight end Tony Gonzalez, former National Hockey League brawler Georges Laraque, professional poker player Daniel Negreanu, and, less recently, pop star and amateur bodybuilder Madonna. Ultimate Fighting Championship mixed martial artist and vegan Luke Cummo says that he drinks his own urine.

And herein lies veganism's appeal to moguls: It affords them the opportunity to control their own health with the same manic id with which they control everything else. Wynn says his new diet has allowed him to get off Lipitor. Clinton's diet made him a fashion darling at his daughter's wedding this summer. "It's probably a good thing in a CEO," says Freston about veganism. "At least they won't be toppling over like those McDonald's CEOs." This latest show of power, in other words, gives them all the more time to enjoy the Swiss chalet and the private jet. B

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This season niche polo-shirt favorite Boast relaunched its menswear line






# No Country Club for Old Men

## Prep school favorite Boast returns with the help of two Ivy League devotees. *By Amy Odell*

Despite being remembered for acid-washed denim, leg warmers, and spandex, the 1980s offered one lasting fashion trend: the ubiquitous polo shirt. The decade saw an arms race among such polo powers as the alligator (Lacoste), the laurel (Fred Perry), the pony (Ralph Lauren), and the pot leaf. Well, technically it was a Japanese maple that adorned the breast of the cult-favorite, nearly-forgotten über-prep brand Boast. The company retired the look in the early '90s but is now bringing it back under the leadership of two former devotees, who offer proof the logo does not depict a controlled substance. "The pot leaf has extra petals," says John Dowling, the brand's co-CEO. "It has longer petals, it's more serrated. It's a different thing."

**"I thought, 'Where did this brand go,'" says co-CEO Alex Tiger**

Japanese maple it is, and Japanese maple it has been since 1973, when a Greenwich (Conn.) tennis pro named Bill St. John founded Boast and drove from country club to country club selling the shirts out of his station wagon. The insignia actually grew out of the company's earliest days, when St. John purchased material for his shirts from a Japanese kimono maker that used the leaf in its designs. Regardless, the story of the company's unusual birth and iconography became cocktail hour fodder in Darien and Southampton, and it wasn't long before Boast—named after a squash shot that hits the side wall before the main wall—became *de rigueur* statement apparel for the slightly irreverent members of the Andover set, George W. Bush among them. At its mid-'80s peak, when it could even be found in the wardrobes of eminences such as John Updike, the company employed 35 people and raked in a modest $8 million in annual

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Boast fans are irreverent—even those who became President

sales. However, St. John decided to pull it from the commercial marketplace in the early '90s to focus on selling exclusively to country clubs, which place sizable orders of blank white shirts onto which they sew their own logos. In the past decade, Boast quietly maintained about 1,500 such accounts. After purchasing the trademark from St. John last year, Dowling and his partner, Alexander Tiger, both 38, have put aside their respective careers as documentary filmmaker and corporate lawyer to revive the brand for a new generation of irreverent prepsters.

Dowling and Tiger are, in one sense, perfect for the gig: They look preppy, but not in that obnoxious Ricky Schroder sort of way. The two met through "mutual prep school friends," as Dowling says, when he was attending Groton and Tiger was at St. Paul's. From there, Dowling went to Harvard, and Tiger to Princeton. "We've got all our bases covered," Tiger says half-jokingly. Dowling looks down and shakes his head. "That's just so obnoxious-sounding," he says. "Yeah, I know," Tiger says. "Don't say that."

Tiger got the idea to relaunch Boast three years ago when he was looking through his closet. "I had old Boast shirts that were so worn out. I thought, 'Where did this brand go?'" Soon, he began contacting St. John to strike a deal. He and Dowling were not, St. John says, the first upstarts eager to reintroduce the shirts. However, Tiger deployed true WASP charm—he sent St. John's assistant bottles of wine—and a shrewd business strategy: begging. "I said to his assistant, 'Put this letter in front of Bill. Make him read this so he understands we're huge fans of Boast and loved it growing up.'" After six months of pestering, St. John finally picked up the phone.

In late 2007, Tiger flew to St. John's Palm Beach (Fla.) home to try to seal the deal. As to be expected among gentlemen, the Boast founder insisted they first play some tennis. "Bill was an All-American at Cornell. I think he liked Alex because he plays really well," Dowling says. "That separated Alex from the usual private equity types that were calling him every year." St. John, who remains a consultant to the brand, more or less agrees with that assessment. "Everything that had to feel good in order for me to accept a partnership felt good," St. John says. "Our skills are complementary, and they have the right passion for the brand. I never wanted to be absorbed by an existing apparel company."

Tiger and Dowling subsequently raised "under $1 million" for this fall's relaunch and quickly learned that Boast had many fans, including branding guru Andy Spade, the Kate Spade and Jack Spade co-founder. Spade agreed to consult on design, branding, and product rollouts. "I think people want something with some realness to it. Hollister is made up," he says. "St. John was one man trying to do something the Europeans were into. The guy's story is so good." So is Spade's. "Anything Spade dips into, I think, is going to do great," says Tim Bess, an analyst at Doneger Group, a trend forecasting firm. "Boast will do well. It will get a buzz."

**"Our skills are complementary," says St. John of his new partners**

So far, Boast sells three styles of $68 polo shirts and one $1,200 blazer on its website, which could easily pass as Royal Tenenbaum's vacation album. They're also working on a "really nice-fitting" women's polo for spring 2011. Children's wear could come after that, and Spade hopes to introduce a tie-dyed style. The timing couldn't be better: Heritage brands such as Pendleton, Levi's, and Stetson have exploded in the past few years. "The fact they decided to launch with the polo is interesting," says Bess. "I think that could work for next year."

Boast orders have come in from over 20 states so far, from New England to less logical places such as Wyoming, and Dowling and Tiger hope to be selling through specialty retailers, and at upscale boutiques, within six months. It's a "slow-build" strategy, says Spade. "A lot of kids don't want to buy big brands that are pushed on them. Find us, we're here, and we're going to do well." Of course, the Japanese maple leaf doesn't hurt. **B**

John Updike was a fan of the Japanese maple leaf





Boast's $1,200 sport jacket




One of the company's new $68 polo shirts

SHIRT, BLAZER: PHOTOGRAPHS BY NICK FERRARI FOR BLOOMBERG BUSINESSWEEK; MODEL, BUSH, UPDIKE: COURTESY OF BOAST

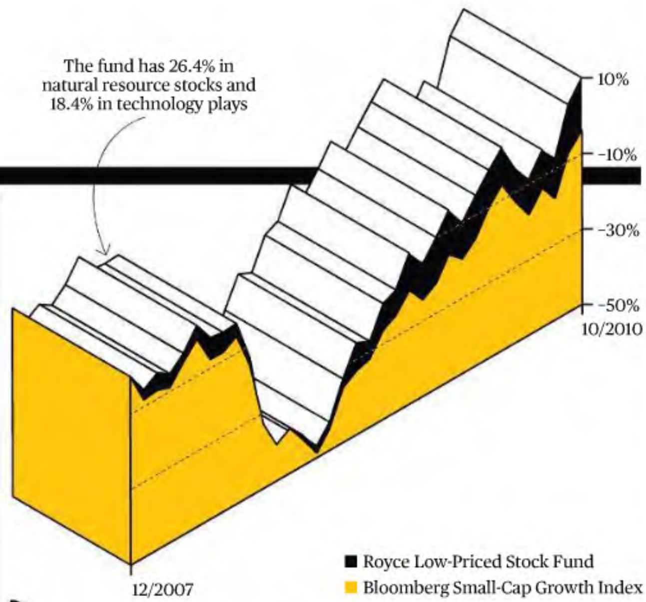


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# Searching for Unloved Stocks




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**THE STATS** DATA: BLOOMBERG

**W. Whitney George has run the $3.9 billion Royce Low-Priced Stock Fund since 2000. Over 10 years the fund's annualized 10.6 percent return has outpaced the S&P 500. The blend fund currently tilts toward growth.**



**George on his plays**





Bryan Adams: a Canadian natural resource





## 1. Fairchild Semiconductor

Demand for semiconductors is rising as manufacturers install more of them into washing machines, cars, and lighting fixtures to control use of power. Fairchild's shares are depressed because investors view its industry as a cyclical one that can tank when the economy sinks. The company should prove relatively steady as more manufacturers begin installing chips and demand grows for consumer products in emerging markets. Fairchild can withstand setbacks: Its balance sheet is sound.

## 2. Sprott

A Canadian money management firm, Sprott runs mutual funds and institutional accounts that specialize in natural resource investing. The company's shares crashed in 2008 as fund clients became wary of investing in stocks. Yet money management remains a profitable business because companies receive steady fees that are a percentage of the assets they manage. Sprott's performance has been sound, and it should prosper as investors gradually return to stocks.

## 3. Hochschild Mining

Hochschild seems likely to deliver growing profits. It spends less than $7 to produce an ounce of silver, which is low at a time when the metal is selling for $24 an ounce. Hochschild has acquired undeveloped properties at low prices, and new discoveries in Chile and Argentina could boost earnings. Silver prices should remain firm because the U.S. and other countries are rushing to print money. That will weaken currencies and increase the value of an ounce of precious metal.

## 4. Trican Well Service

Oil and gas companies are drilling in areas once considered too difficult to exploit. Trican provides a state-of-the-art service known as fracturing in which drillers inject pressurized fluids into sand and rock formations, allowing the hydrocarbons to reach wells. As a Canadian company, Trican has an edge over U.S. rivals. Canada has long had tough safety standards. Since the BP spill, drillers have been seeking service companies with records of meeting tough safety demands.

FROM LEFT: RYAN MCVAY/GETTY IMAGES; MICK HUTSON/REDFERNS/GETTY IMAGES; FLYSTOCK/AGE FOTOSTOCK AMERICA; HENRIK WEIS/GETTY IMAGES

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Etc. How To...

One way to ensure a long weekend: Claim to have a disease mentioned on the TV medical drama *House*




# Fake the Perfect Illness

## Three certified methods to dupe your boss into granting you a sick day—without getting busted

Nobody wants to be the kind of employee who abuses sick-day privileges. Or, rather, nobody wants to look like one. In a recent poll conducted by job website CareerBuilder, 29 percent of workers took a sick day this year when they were feeling just fine. This, of course, calls for a skill set that won't show up on your yearend evaluation: coming up with a believable fake illness. It takes talent, cunning, and a willingness to lie through your teeth to the people who pay you. It also requires a sound game plan. So next time you do it, take your cues from the experts and choose the option that best suits you. **B** —*Eric Spitznagel*



OPTION 1

### Be Frighteningly Contagious

Dennis DiClaudio, author of *The Hypochondriac's Pocket Guide to Horrible Diseases You Probably Already Have*, explains that there are three things that matter: contagion, contagion, and contagion. "Make certain your supervisor puts their best interests above those of the company," DiClaudio says. "Make them believe their health is at risk." However, keep it practical: Avoid excuses like "I have a nasty case of gonorrhea." Also, keep it airborne. Tuberculosis is good, but it could lead to awkward conversations about why you're not dead. Try whooping cough instead—no one will want to talk to you.



OPTION 2

### Pick a Name-Brand Disease

Don't take on an illness that requires an Oscar-worthy performance. For beginners, DiClaudio recommends the pleasantly titled disorder necrotizing fasciitis, more commonly known as flesh-eating bacteria. "It has a couple of things going for it," DiClaudio says. "One, it originally presents itself as little more than a sore throat, a fever, and a mild case of nausea," all of which are easy to fake—even for the cast of *House*. And two, it was mentioned on *House*, "which gives it an air of legitimacy." Since the disease requires surgery, be sure to use it for a long vacation this winter.




OPTION 3

### Don't Actually Get Hospitalized

Dr. Samuel E. Gandy, a professor of neurology and psychiatry at New York's Mount Sinai School of Medicine, suggests subjective ailments rather than symptoms that could lead to an actual evaluation. "Back pain, neck pain, and headache are among the easiest to fake." It's a good lie for those looking to catch up on sleep. "Bed rest is the best prescription for back pain," he says. "If you want to trick a doc into sending you to bed for a week, that's where you should start."

ILLUSTRATION BY QUICKHONEY



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**Dennis Hopper** paid $162,000 for this canvas in 1982. Christie's, which is auctioning it on Nov. 10, values it at up to $1.2 million.



***Dennis Hopper 1971* by Andy Warhol**

***Mère et ses Enfants* by Alfred Stevens**







Sotheby's estimated this painting, owned by **Demi Moore,** could fetch $200,000.

***Untitled* by Jean-Michel Basquiat**



# What Price Hollywood?

## Expect value inflation when celebrity-owned art hits the auction block. *By Lindsay Pollock*

Steve Martin may now be a more bankable star at the auction house than the box office. In 2006, Sotheby's anticipated a $15 million yield for a Martin-owned Edward Hopper painting, *Night Window*. Instead, the piece fetched $26.9 million. The Martin Factor will be tested again on Nov. 10 as Christie's plans to auction *Ohhh...Alright...*, Roy Lichtenstein's 1964 Pop masterpiece. The painting, once owned by Martin, is being sold by casino mogul—and power vegan—Steve Wynn. Expected cost: $40 million. The Martin Factor: priceless.

Despite its well-cultivated veneer of elitism, the art world caters to our celebrity-obsessed culture nearly as much as *USWeekly*. The newest evidence comes in the form of Christie's auction of 35 pieces from the late Dennis Hopper's collection on Nov. 10. One of those pieces is a portrait of Hopper painted by his friend Andy Warhol in 1971. Twelve years ago, Hopper shelled out $162,000 for the canvas. Now the work could be worth up to $1.2 million, according to Christie's.

While the leap in value has a lot to do with the skyrocketing prices for Warhols, this painting has extra cachet: Simply put, it belonged to a movie star. Christie's believes the Hopper trove could blow past its $10 million presale estimate. "It's what I call the X factor," says Cathy Elkies, Christie's senior vice-president of corporate and private collections.

This helps explain why auction houses duke it out for the right to handle celebrity offloadings. "There's no question that a famous name has an impact," says Sotheby's Vice-Chairman David Redden. "It's a pretty powerful factor in prices." The star factor was involved in Christie's 1994 sale of Barbra Streisand's collection, which amassed a $6.2 million yield—nearly $2 million above the presale estimate for Babs' art nouveau tchotchkes and deco Tiffany lamps. Last year, during the financial crunch, Christie's hosted one of the most successful celebrity sales of all time: a $443 million extravaganza from fashion trailblazer Yves Saint Laurent's estate. Even works owned by Mick Jagger's ex-wife Jerry Hall generated a premium in October when Sotheby's hammered down her collection for $3.98 million, surpassing the $2.4 million estimate. The power of celebrity is such that during its 1996

HOPPER: ISAAC BREKKEN/WIREIMAGE; MOORE: GABRIEL BOUYS/AFP/GETTY IMAGES;

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Christie's thought this **Mel Gibson**-owned painting could sell for up to $7 million, but it only fetched $5.2 million.

***Daybreak*** **by Maxfield Parrish**



***Fauteuil Aux Dragons, Vers*** **by Eileen Gray**



This leather chair was sold in the $443 million **Yves Saint Laurent** sale.



Once owned by **Steve Martin,** this piece could rake in up to $40 million on Nov. 10.




***Ohhh...Alright...*** **by Roy Lichtenstein**



Jackie Kennedy Onassis sale, Sotheby's actually sold 100,000 copies of the auction program—and orchestrated an admission lottery to view the preview sale.

Of course, fame can easily turn into notoriety. And in the art world, that can tank a sale. In May, Mel Gibson's offering of Maxfield Parrish paintings at Christie's was expected to bring in $15.9 million. However, the actor's collection reached just $10.9 million. One can only speculate at the buyers' remorse after tapes of Gibson's most recent nutjob tirade emerged.

November sales will test the limits of the Martin Factor. On Nov. 4, Sotheby's was set to auction two paintings owned by Demi Moore, one of which was William Bouguereau's *Frere et Soeur*. Bouguereau, known for academic paintings of Cupids and nymphs, holds appeal for a small band of traditional collectors. The works do not seem quite germane to an actress who posed nude for a magazine while seven months pregnant and once played a gun-toting Navy SEAL. Sotheby's anticipated a $1.5 million sale, though some were skeptical about whether buyers will pay top dollar for works that may have hung in Ashton Kutcher's living room. "Demi and Bouguereau?" says art adviser Cristin Tierney. "Demi is not known for art connoisseurship, and most 19th century work in the vein of Bouguereau isn't very fashionable right now." Meanwhile, on Nov. 21, Phillips de Pury & Co. is putting more than 80 works from Ponzi scheming lawyer Marc S. Dreier's $40 million collection up for sale, including pieces by Damien Hirst and Jasper Johns. Ownership history won't technically play a part in the houses' presale assessments of either cache's value. "They are motivated to put an estimate that has some grounding with reality," says New York art adviser Wendy Crowmell. "They can't always bank on the celebrity appeal."

As for the Dennis Hopper collection, however, art advisers believe buyers will be interested in owning a piece of Hopper's *je ne sais quoi*. "Hopper so encapsulates a particular attitude and era," says Tierney. "He had a voracious cultural appetite," says Elkies. "He was an artist and a collector. It was an organic thing." The Christie's sale includes a Jean-Michel Basquiat painting, which the auction house estimates could fetch up to $7 million. There's also a Julian Schnabel portrait of Hopper rendered in smashed ceramic plates that's tagged to earn up to $200,000. Will buyers who pay up for Hopper souvenirs live to regret it? Tierney thinks not. "The market is recovering and prices will go up," she says. "If you are a little bit aggressive and hit the top end of the estimate, you are still O.K. in this market." **B**

GIBSON: DOMINIQUE CHARRIAU/WIREIMAGE; MARTIN: STEPHEN LOVEKIN/GETTY IMAGES; SAINT LAURENT: JEAN-PIERRE MULLER/AFP/GETTY IMAGES

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Seven months after the Conan fiasco, Zucker announced he'd be leaving NBC Universal





# Battle of the Network Stars

With Conan and Jay, Jeff Zucker couldn't avoid another succession melodrama. *By Jim Windolf*

Toward the end of *The War for Late Night*, Jay Leno is feeling kicked around, Conan O'Brien is depressed, and NBC Universal Chief Executive Officer Jeff Zucker is enraged enough to shout expletive-laden threats into the phone as his plan for late-night domination collapses. As author Bill Carter points out, though, it actually could have been much worse—especially for NBC Universal.

In *The War for Late Night*, Carter, a *New York Times* media reporter since 1989, has created a companion to his 1994 best-seller, *The Late Shift*, about the post-Johnny Carson succession imbroglio. Carter long ago cemented his reputation as the Bob Woodward of the 11:35 time slot, and he treats those who would inhabit it with a Presidential seriousness. He interviews anyone and everyone connected with his story, exchanging the fig leaf of anonymity for some

**The War for Late Night: When Leno Went Early and Television Went Crazy**

*By Bill Carter*
VIKING
416pp, $26.95




genuinely juicy stuff. Not that he had it easy. Readers of *The Late Shift* will remember a scene in which Leno hid in a closet to eavesdrop on a conference call among NBC executives. That piece of reportage changed the comedian's reputation from regular guy to Machiavellian survivor; it also appears to have compromised Carter's access to the funny man's internal monologue this time around. (*Tonight Show* producer Debbie Vickers, however, still provides plenty of details on Leno's mindset.) O'Brien presented a different journalistic challenge. In exchange for the more than $32 million he accepted to leave *The Tonight Show*, he agreed not to publicly disparage NBC or Leno for nine months. Carter navigates around this restriction just fine: The pompadoured one's thoughts, closed-door conversations, and talks with his wife somehow fill the pages.

As the wunderkind executive producer of *The Today Show* in the early '90s, Zucker understood the importance of avoiding a repeat of the Carson succession drama. After O'Brien's superb performance as host of the 2002 Emmy Awards, Zucker staved off other courting networks by secretly offering O'Brien a tempting carrot-and-stick proposition. If he signed a five-year deal, in 2004, as

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host of *Late Night*—the 12:35 a.m. program he inherited from David Letterman in 1993—*The Tonight Show* would be his at deal's end. At the time, however, Leno was the late-night ratings king, having thrashed Letterman's program almost every night since 1995. In March of 2004, Zucker traveled to *Tonight*'s Burbank studio for a meeting in a basement sitting room. Leno, known to buy his shoes by the crateful from Payless, found the room "relaxing and homey." Zucker, disgusted by the old pizza boxes and bowls of "graying guacamole," referred to it as "the dungeon." Nevertheless, this is where he delivered the news of his succession plan.

Leno wasn't pleased with having to cede the stage before hitting 60, Carter reports, but he took it well—at least initially. A few years later, when Leno was still a strong No. 1 in the ratings—and the unheralded Craig Ferguson was occasionally outdrawing O'Brien at 12:35 a.m.—he pushed back. Leno began delivering monologue jokes that jabbed NBC's succession plan and sending out signals that he'd welcome offers from executives at Fox, ABC, and Sony Pictures Television. In his effort not to repeat the Carson debacle, Zucker responded with a bold plan that would allow him to keep both hosts. He forfeited the network's lineup of 10 p.m. programming in favor of *The Jay Leno Show*, an hour-long ersatz *Tonight Show*, which was estimated to save the network more than $10 million in production costs per week.

The decision was a nearly instant disaster. Leno was ill at ease at 10 p.m., an hour that forced him to compete against established scripted shows. When the terrible numbers rolled in, the affiliates rebelled. At 11:35, O'Brien wasn't getting it done, either. While the comedy purist wanted big ratings, Carter writes, he wasn't all that interested in the minute-by-minute results that drove the business. When *Tonight* began finishing second to Letterman for the first time since 1995, Conan fingered NBC's dismal 10 p.m. programming, a swipe at both his predecessor and his boss. Always scheming, Zucker tried to improvise: NBC went to Leno with the offer of a half-hour program at 11:35 p.m. and approached O'Brien with the notion of a 12:05 a.m. *Tonight Show*, which he refused in a huff.

O'Brien's response hints at a larger truth about the difficulty implicit in stars managing their own shows. In the final chapter, Carter solicits some much-needed analysis from comedy veterans Jerry Seinfeld and *Saturday Night Live* creator Lorne Michaels. Both agree that O'Brien was wrong to take offense when NBC approached him with the 12:05 plan. "That fact that the network behaved badly?" Michaels explains. "If you read the charter, that's what they do. Their thing is, they behave badly, and you can't go, 'Really? They did this?'" The *SNL* honcho, who served as executive producer of *Late Night with Conan O'Brien* and plucked the comedian from obscurity, may also be smarting from something else. O'Brien decided not to keep him on his team for *Tonight*. Instead of supporting his protégé from within the halls of 30 Rock, he was reduced to keeping up with him as just another viewer.

**According to Lorne Michaels, networks "behave badly, and you can't go, 'Really?'"**

Strangely, the whole fiasco might have been worth it. If O'Brien had left NBC in 2004 and established a competing late-night franchise, the network would have lost about $235 million in revenue, Carter estimates—significantly more than the roughly $45 million it handed O'Brien and his staff as they walked off the Universal soundstage. Nevertheless, the show must go on. Zucker now finds himself out of a job, and O'Brien's new show premieres this week on a basic cable channel his representatives couldn't find on the dial before coming to a deal. Leno is back where he was at the end of *The Late Shift*—seated on his *Tonight Show* throne, the victor of another national melodrama over late-night succession. **B**

# The Oprah Factor

Not every on-air talent has what it takes to successfully run a franchise or production company. These four entertainment moguls know why they call it show business. —*Marnie Hanel*



**DAVID LETTERMAN**

When Jay Leno scored *The Tonight Show* gig, Letterman defected to CBS, securing more control and profit than Leno has ever had. His production company, Worldwide Pants, produces *The Late Show*, and Letterman retains the rights to every episode. The company also has a piece of syndication favorites such as *Everybody Loves Raymond*.



**DON CORNELIUS**

In 1970 the then-sports anchor produced *Soul Train*, a musical-variety show targeting African Americans. He encountered resistance—only seven cities aired it during its debut year—but Cornelius pressed on. He ended up hosting and owning one of the longest-running shows in history before selling it for an undisclosed sum in 2008.



**TYRA BANKS**

Aiming her daytime program, *The Tyra Banks Show*, at younger girls, the model-turned-TV-personality avoided competing with big guns when she went on the air in 2005. Soon she, too, was a mogul, winning loyal fans for the show she co-produced through its finale this past June. Banks owns 25 percent of *America's Next Top Model*, now in its 15th cycle.



**DICK CLARK**

As host and producer of *American Bandstand*, Clark saw the value of a long-running, low-cost TV series. The famed DJ and master of ceremonies copied the model at his own production company, creating a spate of name-brand TV and radio shows, including *Dick Clark's New Year's Rockin' Eve*, which has been on the air for 37 years.

OPPOSITE PAGE, ILLUSTRATION BY: NATHAN FOX; THIS PAGE, CLOCKWISE FROM LEFT: JAMES DEVANEY/WIREIMAGE; DAVID LIVINGSTON/WENN/NEWSCOM; CHRIS HASTON/NBCU PHOTO BANK VIA AP IMAGES; PAUL FENTON/ZUMA PRESS

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# Etc. Hard Choices

## Yue-Sai Kan

“The biggest challenge was creating a market. Chinese women didn’t use a lot of makeup. I had to train the first group of beauty consultants”

The Chinese television star and entrepreneur on building a business, establishing a market, and knowing when to sell





In 1990 the vice-premier of China asked me to consider starting my own business. It was shortly after Tiananmen Square and companies were leaving. I had my own TV show and I was well-known in China. “We will help you,” the vice-premier told me. “It will be good for your brand image.”

Even with official support, I knew I’d be starting from almost zero and I would have to be in China full-time. I couldn’t commute a few days per month from New York where I was splitting my time. China wasn’t like it is today. I brought my own Ajax to hotels to scrub the bathrooms before I used them.

I decided to develop a cosmetics line for Chinese women. The government had never encouraged the beauty industry, but makeup had been a frustration of mine. I have a yellow skin tone, my nose is flat, and my hair is black. I’m not a Caucasian, so why should I be using a French product? I sensed there was a need for products tailored to Asian women.

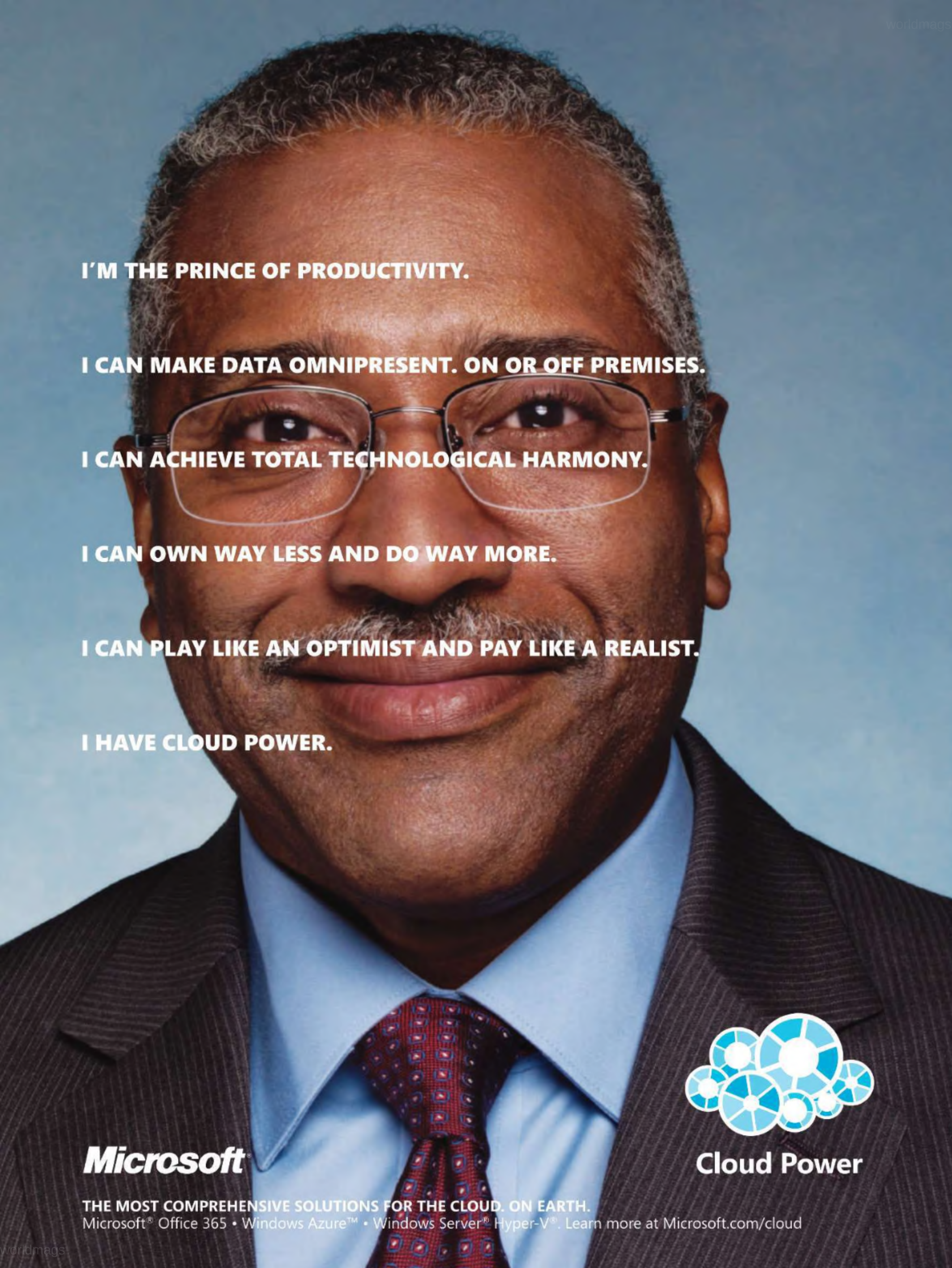
Building a business in China isn’t for the faint of heart. The government is involved in everything. There are a million missiles: We can’t get our products from the warehouse? Our pamphlet hasn’t been approved? But the biggest challenge was creating a market. Chinese women didn’t use a lot of makeup. I had to train the first group of beauty consultants in the country. I used my television show to teach women how to apply makeup. I held seminars. I even wrote a book about it.

The line became a huge success, which created new problems. We couldn’t make enough products, and new product development was too slow. I had issues in the factories, and I lacked the expertise to deal with them. In 2004, I sold the brand to L’Oreal but stayed on as honorary vice-chairman. Selling was easy; what was difficult was giving up control of the company I’d worked so hard to build. You need to understand this country and have relationships to succeed here. The Chinese know much more about Americans than Americans do about them. Maybe that didn’t matter during the last 20 years, but the world has changed. —*As told to Diane Brady*

PHOTOGRAPH BY MIKE MCGREGOR FOR BLOOMBERG BUSINESSWEEK

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